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NEW ZEALAND'S INTERESTS AND POLICIES IN THE FAR EAST

By
IAN F. G. MILNER

I. P. R. INQUIRY SERIES

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FOREWORD

This study forms part of the documentation of an Inquiry organized by the Institute of Pacific Relations into the problems arising from the conflict in the Far East.

It has been prepared by Mr. Ian F. G. Milner, at present on the staff of the New Zealand Institute for Educational Research, Wellington, and until recently Commonwealth Fellow at Columbia University, New York.

The Study has been submitted in draft to a number of authorities including the following, many of whom made suggestions and criticisms which were of great value in the process of revision: Dr. Horace Belshaw, Dr. W. B. Sutch, Mr. Bruce Turner and Mr. Jack Shepherd.

Though many of the comments received have been incorporated in the final text, the above authorities do not of course accept responsibility for the study. The statements of fact or of opinion appearing herein do not represent the views of the Institute of Pacific Relations or of the Pacific Council or of any of the National Councils. Such statements are made on the sole responsibility of the author. The Japanese Council has not found it possible to participate in the Inquiry, and assumes, therefore, no responsibility either for its results or for its organization.

During 1938 the Inquiry was carried on under the general direction of Dr. J. W. Dafoe as Chairman of the Pacific Council and in 1939 under his successor, Dr. Philip C. Jessup. Every member of the International Secretariat has contributed to the research and editorial work in connection with the Inquiry, but special mention should be made of Mr. W. L. Holland, Miss Kate Mitchell and Miss Hilda Austern, who have carried the major share of this responsibility.

In the general conduct of this Inquiry into the problems arising from the conflict in the Far East the Institute has benefited by the counsel of the following Advisers:

Professor H. F. Angus of the University of British Columbia

Dr. J. B. Condliffe of the London School of Economics

M. Etienne Dennerly of the Ecole des Sciences Politiques.

These Advisers have co-operated with the Chairman and the Secretary-General in an effort to insure that the publications issued in connection with the Inquiry conform to a proper standard of sound and impartial scholarship. Each manuscript has been submitted to at least two of the Advisers and although they do not necessarily subscribe to the statements or views in this or any of the studies, they consider this study to be a useful contribution to the subject of the Inquiry.

The purpose of this Inquiry is to relate unofficial scholarship to the problems arising from the present situation in the Far East. Its purpose is to provide members of the Institute in all countries and the members of I.P.R. Conferences with an impartial and constructive analysis of the situa-

tion in the Far East with a view to indicating the major issues which must be considered in any future adjustment of international relations in that area. To this end, the analysis will include an account of the economic and political conditions which produced the situation existing in July 1937, with respect to China, to Japan and to the other foreign Powers concerned; an evaluation of developments during the war period which appear to indicate important trends in the policies and programs of all the Powers in relation to the Far Eastern situation; and, finally, an estimate of the principal political, economic and social conditions which may be expected in a post-war period, the possible forms of adjustment which might be applied under these conditions, and the effects of such adjustments upon the countries concerned.

The Inquiry does not propose to "document" a specific plan for dealing with the Far Eastern situation. Its aim is to focus available information on the present crisis in forms which will be useful to those who lack either the time or the expert knowledge to study the vast amount of material now appearing or already published in a number of languages. Attention may also be drawn to a series of studies on topics bearing on the Far Eastern situation which is being prepared by the Japanese Council. That series is being undertaken entirely independently of this Inquiry, and for its organization and publication the Japanese Council alone is responsible.

The present study, "New Zealand's Interests and Policies in the Far East," falls within the framework of the first of the four general groups of studies which it is proposed to make as follows:

I. The political and economic conditions which have contributed to the present course of the policies of Western Powers in the Far East; their territorial and economic interests; the effects on their Far Eastern policies of internal economic and political developments and of developments in their foreign policies vis-à-vis other parts of the world; the probable effects of the present conflict on their positions in the Far East; their changing attitudes and policies with respect to their future relations in that area.

II. The political and economic conditions which have contributed to the present course of Japanese foreign policy and possible important future developments; the extent to which Japan's policy toward China has been influenced by Japan's geographic conditions and material resources, by special features in the political and economic organization of Japan which directly or indirectly affect the formulation of her present foreign policy, by economic and political developments in China, by the external policies of other Powers affecting Japan; the principal political, economic and social factors which may be expected in a post-war Japan; possible and probable adjustments on the part of other nations which could aid in the solution of Japan's fundamental problems.

III. The political and economic conditions which have contributed to the present course of Chinese foreign policy and possible important future developments; Chinese unification and reconstruction, 1931-37, and steps leading toward the policy of united national resistance to Japan; the present degree of political cohesion and economic strength; effects of resistance and current developments on the position of foreign interests in China and changes in China's relations with foreign Powers; the principal political,

economic and social factors which may be expected in a post-war China; possible and probable adjustments on the part of other nations which could aid in the solution of China's fundamental problems.

IV. Possible methods for the adjustment of specific problems, in the light of information and suggestions presented in the three studies outlined above; analysis of previous attempts at bilateral or multilateral adjustments of political and economic relations in the Pacific and causes of their success or failure; types of administrative procedures and controls already tried out and their relative effectiveness; the major issues likely to require international adjustment in a post-war period and the most hopeful methods which might be devised to meet them; necessary adjustments by the Powers concerned; the basic requirements of a practical system of international organization which could promote the security and peaceful development of the countries of the Pacific area.

EDWARD C. CARTER
Secretary-General

*New York,
January 15, 1940*

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NEW ZEALAND'S INTERESTS AND
POLICIES IN THE FAR EAST

CHAPTER I

HISTORICAL BACKGROUND UNTIL 1930

NEW ZEALAND AND BRITAIN

New Zealand's brief century of existence as a British colony and Dominion has seen many changes in the extent of her contact with the countries of the Far East and in the popular and official attitude evoked by such contact. But despite the variations arising from rapidly changing political, economic and physical conditions, certain fundamental features of New Zealand's life have tended to create a certain underlying uniformity of attitude. Three factors in particular have predominated in shaping New Zealand's perspective of the Far Eastern countries: geographical isolation, membership in the British Empire and Commonwealth, and a commercialized agricultural and pastoral economy.

Outstanding among these determinants is the nature of New Zealand's link with Great Britain. Founded according to Edward Gibbon Wakefield's plan for a "Britain of the Southern Seas," peopled from earliest times by carefully selected representatives from the various "grades" of English society, governed at first by English Governors and then by parliaments after the British model, dependent on the "Motherland" in finance, trade and cultural outlook—it is little wonder that a marked British tone became the familiar characteristic of New Zealand life.¹ An analysis of what has been called New Zealand's "mother-complex" cannot be attempted here. What concerns us are the effects of the British tradition on attitudes and policy of New Zealand as a member of the Pacific family of nations.

The unique significance for New Zealand of the British market, both in trade and finance, need not be discussed here in detail.² Ever since the successful introduction of refrigeration for meat and dairy produce in the 'eighties New Zealand's pros-

¹ See, e.g., J. B. Condliffe, *New Zealand in the Making*, Chapter 13; Andre Siegfried, *Democracy in New Zealand*, Chapter 28; and *Contemporary New Zealand* (N. Z. Institute of International Affairs), Chapter I and *passim*.

² *Contemporary New Zealand*, Chapters I and IX.

perity has been bound up with the prices ruling on the British market for frozen mutton and lamb, butter and cheese, and, to a lesser degree, wool. The rise to predominance of these and other products of the pastoral industries is recorded in the following figures (showing the percentage of total export values contributed by pastoral products): 1880, 50 per cent; 1900, 66 per cent; 1914, 86 per cent; 1937, over 94 per cent. Since New Zealand consumes only a fraction of its output of primary products (about 5 per cent of the cheese and 15-20 per cent of butter) it has been forced to rely on the United Kingdom as the most naturally advantageous outlet for its primary exports.

Trade between the two countries was facilitated by the early establishment of regular lines of shipping and communication, and ties of kinship, trade, industry and finance made the close economic relationship secure from any fear of interruption by trade barriers or unfriendly national policies. Great Britain was not only a secure and unrestricted market and a source of supply of essential imports of capital and consumption goods, but also an international monetary center from which imports from other countries could be financed by the use of surplus sterling credits arising from a so-called "favorable" balance of trade, or from the proceeds of borrowing.³

The degree of New Zealand's dependence on the British market is shown by the following:

<i>Year</i>	<i>Value of Total Exports £000's</i>	<i>Per Cent of Total Taken by United Kingdom</i>
1900.....	13,223	77.6
1910.....	22,152	84.1
1925.....	55,243	79.8
1930.....	44,941	80.1
1932.....	35,610	88.0
1935.....	46,538	83.6
1937.....	66,713	76.0

Coupled with this trade bond is that of finance. From the early colonial days down to the post-War years New Zealand has borrowed freely on the London credit market for development purposes. In 1902 Siegfried pointed out the significant fact that of a public debt of some £48 million England had loaned about £44 million. Today "of the total public debt of the Dominion, £157,600,000 (sterling) is domiciled in London, £130,000,000 in New Zealand and under £1,000,000 in Australia."

As in the sphere of trade and finance, New Zealand's attitude

³ *Contemporary New Zealand*, p. 95.

to other vital interests such as immigration policy, foreign affairs and defense has been predominantly shaped by the imperial connection. Despite recent manifestations of a more "internationalist" outlook on these problems, a "White New Zealand" policy has been just as fixed a tradition of national life as it has in Australia. From early colonial days the influx of non-British Europeans and Asiatics (even when British nationals) has been rigorously limited. In the census year 1936 the percentage of European stock was 94.33, of which 96.5 per cent was British. Maoris (including half-castes) made up 5.23 per cent and "other races" 0.44 per cent. Pride in the high British percentage of the national stock has remained a fairly constant feature of Dominion life. Such sentiment explains in part the signs of race prejudice which contact with immigrants from Asia has on occasion evoked.

Nowhere has New Zealand's reliance on Britain been more clearly marked than in the field of defense and external affairs. During the Maori wars of the 'sixties the great majority of the troops engaged were at first from England. They withdrew in 1870, and although from then on New Zealand established its own Territorial Force (on a voluntary basis till 1909 followed by compulsory service during the period 1910-30), the Dominion relied for its security almost entirely on the British Navy. Attention was, however, paid to coastal defenses after a "comprehensive report" made by Sir William Jervis in 1884 had declared "that it was impossible for the Imperial Navy adequately to protect the Southern Colonies."⁴ The tradition of reliance on the British Navy was given concrete expression with the decision made in 1887 to contribute £20,000 annually to its cost. In 1903 the annual sum was raised to £40,000, in 1908 to £100,000 and in the following year the gift of a battle-cruiser was made to the Home Fleet.

Soon after the Great War a change in naval defense policy, decided on before the War, was carried into practice. A local "New Zealand Division" of the Royal Navy was formed, "the vessels of which were to be stationed in New Zealand waters, manned in part by New Zealand personnel and in peace controlled exclusively by the New Zealand Government. The squadron consisted first of one 'C' class cruiser, then of one 'D' (4,850 tons), and later a second 'D,' recently replaced by two modern

⁴ *Contemporary New Zealand*, p. 248 et seq.

'Leander' class (7,000 ton) cruisers,"⁵ in addition to a training ship and escorts. This new development in no way marked any change in the traditional policy of implicit trust in the British Navy for the security of New Zealand shores and trade routes. In the words of Admiral Jellicoe, addressing delegates from the New Zealand Navy League Conference in 1920, the creation of a local unit of the Imperial Navy meant that "the loyal and patriotic spirit of New Zealand would be a visible and tangible thing." Strategically the change of policy laid the basis for an "Eastern Fleet of Empire," as envisaged by Sir James Allen, Minister of Defense, in his report to the Committee of Imperial Defense in 1913. The proposed Pacific Fleet was to consist of local units from Great Britain, Canada, Australia, South Africa and New Zealand:

By "local units" I mean such units as each country, in its own opinion, ought and can afford to contribute for its own harbour and coast defence and for the purpose of a common sea-going fighting force. By "Eastern Fleet of Empire" I understand a combination of the sea-going fighting portions of each Unit, having as its main objective the protection of the seaways of the Pacific, and of sufficient power to support the Advisors of the Sovereign in any diplomatic questions, and especially those in which the Dominions of the Pacific may be interested. *It should be supplemental to the British Fleet*; should not be moved from the Pacific except for the most urgent reasons, but must be at the disposal of the Advisors of the Sovereign when war broke out or if war were imminent. . . .⁶

After the War the Singapore base project provided a center of effective co-ordination for the "local unit" scheme of Imperial defense. Viscount Jellicoe, authorized in 1919 to present a report on New Zealand's naval policy to the Government, "made it clear that the proper strategy for the British Empire in the Pacific was to provide an adequate fleet in the Far East and to defend Singapore and Hongkong against attack by capital ships supported by a strong landing force. New Zealand was reminded of the possible escape of raiders from a blockaded area and the necessity to keep a sufficient naval force to protect trade and to ensure the early capture or destruction of such enemy vessels as may escape the main blockade, with the object of interrupting our overseas communications by gun fire, torpedoes, mines or aircraft . . ."⁷

⁵ *Contemporary New Zealand*, p. 249.

⁶ Sir James Allen, *New Zealand and Naval Defence*, 1929, p. 7.

⁷ *Ibid.*, p. 10.

In 1920 the Prime Minister, Mr. William Massey, reiterated that

the countries of the Empire should contribute to the defense of the Empire, naval defense particularly, in proportion to their financial ability. . . .

By 1921 the naval defense appropriation (exclusive of interest and sinking-fund charges in payment for the battle-cruiser presented in 1909) had risen to over £300,000. In 1927, despite a serious economic depression, the Government announced its decision to contribute on behalf of New Zealand the sum of £1,000,000 toward the cost of the Singapore base.

The relation of the post-War developments in defense policy to the rise of Japan as a great power in the Pacific are considered later.⁸ While one must not exaggerate the extent of popular endorsement of the various defense schemes and armament expenditures it may be said that the great majority of New Zealanders continued in the post-War years to regard the British Navy as the guarantee of their security. Opposition was mainly concentrated against the widely unpopular compulsory military training scheme (abandoned in 1930) and, among pacifist sections of the Labor Party and liberal opinion, against the allegedly unnecessary scale of naval expenditure, particularly in regard to the Singapore base.

In the field of foreign relations, as in that of defense, New Zealand's traditional reliance upon Great Britain was only strengthened by the factor of extreme physical isolation. Even in the first decade of its existence as a British colony New Zealand statesmen began to feel that the presence of any other power in the islands south of the equator was a potential menace. Thus as early as 1848 Sir George Grey, then Governor of the colony, urged on the British Colonial Office that they annex Fiji and Tonga in view of increasing French colonizing enterprise in the South Pacific. Later, when German imperialist ambitions were added to those of France in the South Pacific, New Zealand's leaders, Grey, Stout, Vogel, Seddon, pleaded successively and cogently that the British Government either should annex the South Pacific islands itself, or allow New Zealand to take such responsibility. Bitter disappointment mixed with popular indignation marked the passing of New Caledonia to France and, above all, Samoa, partly to the United States

⁸ See p. 20.

and partly to Germany. In some degree this reaction to apparent British passivity derived from New Zealand's inherited and waxing imperial sentiment. Prominent New Zealand statesmen, in particular Sir George Grey and Richard John Seddon,⁹ felt it was New Zealand's role to act as custodian of the imperial tradition in the Southern Pacific. But the prime motive, operating as strongly on Australia, behind New Zealand's "Pacific imperialism" was the craving for security created by the lively awareness of its isolation from a protective Motherland. To quote Siegfried:

According as the policy of colonial expansion developed among the Powers, they (Australia and New Zealand) realized, as a sure instinct had from the first warned them, that it was necessary for them to remain, as far as possible, alone and without troublesome neighbors in the South Pacific. . . . In this way the program "Australasia for the Australasians" developed into "Oceania for the Anglo-Saxons."¹⁰

Despite strong pressure on the Colonial Office combined with some independent activity by New Zealand in regard to possible annexation of Samoa in the early 'eighties, the program fell sadly short of fulfillment. Fiji was finally taken over by Great Britain in 1874, but New Zealand had to be content with the Kermadec Islands (1887) and the Cook group (including Niue) in 1901. After the Great War, German (western) Samoa was given to New Zealand as a "C" mandate, compensation which only in part satisfied New Zealand ambitions for annexation.

The importance in New Zealand eyes of this policy of "Oceania for the Anglo-Saxons" is registered by the degree of independence which the Government displayed in urging it on the Colonial Office. Control of New Zealand's external relations was effectively in the hands of the Imperial Government and even though New Zealand's imperial patriotism was never higher than during the Seddon period of the 'eighties and 'nineties its leaders insisted on pressing forward a policy which met with positive disfavor in London.

In matters falling outside the immediate range of New Zealand's local interests, unquestioning faith in Britain's policy was characteristic of all groups except sections of the rising labor movement which exhibited, especially in the years just before the Great War, pacifist and anti-imperialist sentiments. The

⁹ Prime Minister, 1893-1906.

¹⁰ Siegfried, *op. cit.*, p. 351.

granting of Dominion status to the colony in 1907 brought no change in the traditional reliance on Britain for the conduct of foreign affairs. After the War New Zealand signed the Versailles Treaty as an independent member of the League of Nations. But the Dominion's leaders were reluctant to acknowledge any change in New Zealand's constitutional status and were certainly unwilling to assume any independence in the conduct of foreign relations.¹¹ New Zealand's characteristic attitude was clearly indicated in the following declaration to the House of Representatives made by the Attorney-General in 1923 on the subject of external relations:

(he) could not remember any instance in which we had been consulted . . . where the answer had not been in the stereotyped form: "New Zealand is content to be bound by the determination of His Majesty's Government in London."

Thus, when Mr. Lloyd George had appealed to the Dominions for support during the Chanak crisis with Turkey in 1922, the New Zealand Government offered to send a contingent immediately without taking time to consult Parliament.

In 1926 the Imperial Conference laid the constitutional base for a much greater potential degree of independence in the conduct of the Dominions' foreign policy. The Balfour Declaration adopted by the Conference recognized that members of the British Commonwealth were "autonomous Communities . . . equal in status . . . in no way subordinate one to another in any aspect of their internal or external affairs. . . ." But an important corollary, warmly endorsed in New Zealand, was attached. It was "frankly recognized" that in the conduct of foreign affairs generally,

as in the sphere of defense, the major share of responsibility rested . . . and must for some time continue to rest with His Majesty's Government in Britain.

Thus until 1930 at least, with certain exceptions relating to

¹¹ E.g., Sir John Salmond's "classic" report to the House of Representatives after representing New Zealand in the British Empire delegation at the Washington Conference, 1921-2: "The true significance of the presence of representatives of the Dominions at the conference is not that those dominions have acquired for either international or constitutional purposes any form of independent status, but that they have now been given a voice in the management of the international relations of the British Empire as a single undivided unity—relations which were formally within the exclusive control of the Government of Great Britain. . . ."

New Zealand's conceived local needs, it may be said that the Dominion both in defense and foreign policy had been an almost uncritical disciple of the British Government. Some criticism of the prevailing attitude was to be found in the Labor party on particular issues, such as the Government's decision to have the provisions of the Statute of Westminster expressly exempted from application to New Zealand until the New Zealand Parliament decided otherwise.¹² On the broad issues of foreign policy, however, the New Zealand Government, at least until 1935, was content to follow Great Britain's lead.

In the light of these primary determinants of New Zealand's attitude in external affairs, relations with China and Japan prior to 1930 may now be briefly reviewed.

CHINA: EARLY CONTACTS

Mere geographical remoteness, to the extent of some 6,000 miles, tended to keep China out of the orbit of New Zealand's essentially limited and practical range of interests during the years of its colonial development. There was not, as with Australia, an early-developed trade link and the imperial tie did not directly involve New Zealand interests in British commercial enterprise in Hongkong and on the Yangtze. Events such as the Sino-Japanese War of 1894-5 and the Russo-Japanese War brought China temporarily into the popular consciousness. But on the whole to the New Zealander the country and its problems remained a closed book. China was merged into the blurred collective of "the Orient"—the vast shadow-lands of Asia tinged with mystery and tourist glamor.

This general ignorance of China's history, culture and awakening potentialities was an unfortunate preparation for the only direct impact with the country—the influx of Chinese to the Otago gold fields during the 'sixties. Soon there were over 4,000 in the colony, all but about 500 concentrated around the gold fields. Demands for their exclusion, stimulated by fear of economic competition, race prejudice and effects of similar

¹² E.g., Mr. H. G. R. Mason, now Attorney-General in the Labor Government, in the House of Representatives, 1930: "I cannot understand the attitude of some people—that New Zealand has not quite grown up; that it has not yet acquired that stage of development when it can be granted full power and full charge of itself. I rejoice that the other Dominions have a better idea of their status and I am sorry that in this country we should take pride in our insufficiency."

agitation in Australia and California, led to the passing of the first restrictive legislation in 1881, "The Chinese Immigrants Act." The Act was "on a definitely racial basis, imposing a poll tax on all persons born of Chinese parents, and restricting the numbers to one for every ten tons of ship's tonnage."¹³ In 1888-9, during the years of severe economic depression, tighter restrictions were imposed and in 1896, Mr. Seddon's Liberal-Labor Government, in the cause of protecting labor standards, raised the poll tax to £100 and the limit on entrants to one per two hundred tons of ship's tonnage. In view of Indian susceptibilities the British Government objected to legislation thus framed in racial terms and in consequence a general Immigration Restriction Act substituting an education test along with other safeguards was introduced in 1899 and applied to Chinese in 1907. The specific discriminations against Chinese immigrants, particularly the poll tax, however, still remained until the comprehensive change in the Immigration Restriction Act of 1920 which "dropped the education test and substituted a system of individual permits for all immigrants of non-British descent, including British Indians."¹⁴ This modification has meant that,

with the exception of the poll-tax in the case of Chinese there is now no statutory discrimination between race or nationality. All must obtain a permit. The permit is given or withheld at the discretion of the Minister of Customs.¹⁵

The policy of restricting Asiatic immigration on economic grounds has continued, however, under the revised machinery of control. During the ten years, 1922-31, there was a net departure of 511 Chinese.¹⁶ Moreover, it must be noted that certain remnants of the old discriminatory legislation lingered on until very recently. The Old Age Pensions Act excluded from its benefits

Chinese and other Asiatics whether naturalized or not, or whether a British subject by birth or not.

A similar provision was written into the Family Allowance Act

¹³ Condliffe, *op. cit.*, p. 432.

¹⁴ Condliffe, *op. cit.*, p. 434.

¹⁵ G. H. Scholefield and T. D. Hall, *Asiatic Immigration in New Zealand: Its History and Legislation* (Paper prepared for the I.P.R. Conference, 1927).

¹⁶ From 1926 onwards no permits have been issued to Chinese seeking permanent residence in New Zealand.

of 1926. These "needlessly insulting relics of a historical situation" were removed only with the passing of the Labor Government's comprehensive Social Security Act of 1938. Under its provisions there are no specific restrictions of qualification for old-age benefits, for example, beyond the uniform requirements of age (60 and over), residence in New Zealand (for ten years prior to application), and satisfaction as to "good moral character and sober habits."¹⁷

How far has this record of contact with Chinese immigrants shaped New Zealand's attitude to China and the future development of the Far Eastern nations? Certainly one characteristic of the anti-Asiatic agitation has been the cruder forms of race prejudice whipped up behind successive restrictive and discriminatory measures in Parliament. The "yellow peril," applied specifically to the alleged menace of swelling Chinese immigration, and resultant lowering of New Zealand wage standards and degree of "Anglo-Saxon purity," became widely established in the popular mind during the thirty years before the Great War. Even responsible Government officials such as the Agent-General, conceived of the problem in such terms as the danger of ". . . flooding Australasia with yellow barbarians."¹⁸ On the other hand there were many liberal-minded New Zealanders, not directly touched economically by the Chinese influx, who decried the popular outbursts of race hatred:

Sweeping condemnations of the Chinese or other races on moral and other grounds, the attribution of inferiority and denial of culture receive no support from competent judges and thinkers. . . .¹⁹

On examination, one finds that this racial prejudice was the direct, if often unacknowledged, product of economic forces. The record of the various exclusionist campaigns reveals that

from the earliest date of the agitation for legislation until 1907, every Act passed was preceded by some economic crisis in the country, causing unemployment and distress. . . .²⁰

Similarly, the revised Act of 1920, the recrudescence of agitation

¹⁷ The Pension Act of 1936 had reduced the residential qualifications from 25 to 20 years and made Asiatics eligible *if British subjects*.

¹⁸ Quoted by Siegfried, *op. cit.*, p. 227.

¹⁹ T. D. Hall, "Asiatic Immigration" in *New Zealand Affairs*, London, 1929, Chapter 5.

²⁰ *Ibid.*

in 1926-7 and in 1932 coincided once more with the worst phases of the post-War depressions. As Dr. Condliffe puts it,

As in other countries, however, it was quite clear that whatever rationalizations were advanced and whatever fears were used to work up public opinion, the primary cause of the agitation was economic, the desire to protect the standard of living of workers who feared Chinese competition.²¹

To the basic economic motive one may add the contributing factor of pride in the "purity" of New Zealand's British stock.

The peculiarly local nature of the anti-Chinese agitation has not permanently distorted New Zealand's attitude to China as a fellow nation of the Pacific. It is true that most New Zealanders are practical-minded and quick to form sweeping judgments from the limited evidence available from day-to-day experience. And so:

public opinion . . . had an unfortunate bias imputed to it by the fact that almost its only basis for judgment regarding Chinese and indeed Asiatic affairs was derived from the presence of coolies in its midst. Market gardeners and laundrymen are not the worthiest representatives of the great civilizations of the Far East. . . .²²

But the best-informed minds in New Zealand were well aware of the unrepresentative character of the Chinese immigrant, even though they inclined to exaggerate his supposed non-assimilability. One of New Zealand's outstanding liberal statesmen, William Pember Reeves, commented in 1901:

It has been argued that the Chinese are not a degrading element; that they are an industrious, frugal and peaceful people, with a civilization, a learning and an education of their own. . . . Their literati may be entitled to be called civilized, but the classes from which their emigrants are drawn are not literati. Industrious they are, but industry without certain social qualities is a doubtful virtue. A man may be industrious, and yet be dirty, miserly, ignorant, a shirker of social duty, and a danger to public health. All these most of the Chinese immigrants are. . . .²³

Reeves did not inquire into the possibilities of removing by remedial educational opportunities these undesirable features. He was defending an economic policy to which the Seddon Liberal-Labor Government was committed in view of fluctuating unemployment and popular demand for the maintenance of

²¹ Condliffe, *op. cit.*, p. 433.

²² Condliffe, *op. cit.*

²³ Reeves, "Aliens and Undesirables in Australasia," *National Review*, December 1901.

wage and hour standards. His attitude clearly shows that any bias entertained toward the Chinese applied only to the special character of immigrants in New Zealand, in the light of specifically local conditions.

Further evidence that the exclusionist agitation has been limited in its prejudicial effects is not lacking. In 1904, immediately after one of the most bitter anti-Chinese campaigns, a memorial protesting against the exploitation of Chinese labor in the South African Rand mines was passed both in the House of Representatives and the Legislative Council.

Again even within the limits of its special domestic interests there were signs in the post-War years of a definite change of outlook in the labor movement, related perhaps to the growing consciousness of its international responsibilities:

The radical element in Parliament, now represented by the Labour Party, has through its leaders given expression to idealistic views on the subject of immigration restriction. While firm against the exploitation of cheap labour and the lowering of standards, the views expressed would give absolute equality of treatment to Asiatics admitted to New Zealand, and would concede to Asiatic countries equal rights of restricting the admission of Europeans. The inferiority thesis is definitely abandoned. How far this represents the opinion of Labour outside its leaders it would be difficult to say.²⁴

Further evidence of a desire to eliminate the prejudice which was associated with earlier immigration restrictions against the Chinese is seen in a speech made in the House of Representatives on October 22, 1935 by Mr. W. E. Barnard²⁵ during a debate on the Immigration Restriction Amendment Bill. Mr. Barnard pointed out that certain objectionable discriminatory provisions, such as the poll tax, still remained on the statute book and were sufficient, he considered, to

. . . lead the Chinese to suppose that we regard them as a people inferior to all the other people in the world. We would never dream of legislating in that way against the Japanese because they are in a position not merely to show resentment but to make that resentment felt.

The Chinese were an "ancient and civilized people" and he felt that:

the day may come when the Chinese Republic may be in a position to require such an alteration and it would be a more dignified attitude on our part to repeal now the provisions we do not require.

²⁴ T. D. Hall, "Asiatic Immigration," *New Zealand Affairs*, p. 95.

²⁵ Now Speaker of the House of Representatives.

The plea met, however, with little immediate response. The Minister of Customs, Mr. J. G. Coates, declaring that negotiations with a view to removal of the poll tax had been undertaken with the Chinese Consul-General some time previously without yielding definite results, promised that the matter would be brought up again at the next session of Parliament.²⁶

This tendency toward a broadening of tolerance toward the Chinese in contrast with the distorted view born of the "yellow peril" has not prevented, as noted above, post-War recrudescences of the old intolerance. During the early months of 1920, in the worst of the depression, over 300 Chinese and 136 Hindus arrived. Believing that their living standards would be undermined by such a continuing influx, Auckland watersiders threatened not to work ships carrying Asiatic immigrants. And the *New Zealand Herald* revealed the traditional "White New Zealand" mood in an aggressive editorial:

The time has come to declare to the world in terms that are not ambiguous that we object to the immigration of Asiatics as such. No diplomatic complications need be feared. The Chinese Government is not particularly interested in the emigration question. The Japanese have already set a precedent in regulating the admission of Chinese on the grounds that the economic standards of the countries differ. . . . As a self-governing country the Dominion has an inalienable right to determine the character of her immigration and to refuse whom she will. The assertion of this right may embarrass the Imperial Government which has always sought to mask the purpose of our immigration laws in formulae soothing to Indian and Japanese susceptibilities. . . . It should be made, nevertheless.

Again, toward the end of 1931, when unemployment was rapidly increasing, an influential petition was presented to Parliament calling for the exclusion of all Asiatics. At the same time, however, public sympathy for China in the Manchurian crisis was widespread and spontaneous.

In the post-War years, however, it is significant that the "yellow peril" took on a new meaning. Once the restrictive legislation of the 'eighties and 'nineties had taken effect, the danger to New Zealand labor standards and to the coefficient of British "purity" from the entry of Chinese coolies steadily lost

²⁶ The statute imposing the poll tax has remained unchanged. However, in September 1934, the Minister of Customs agreed to waive actual payment of the £100 "in case of any Chinese entering with a permit for permanent residence." Since such permits have not been granted since 1926, the concession meant nothing and the discriminatory clause remains.

grip in the popular mind.²⁷ After the War it was the rapid rise of Japan as an industrial and military power which gave the "yellow peril" a new lease on life. Now, instead of embarrassingly industrious Chinese market-gardeners monopolizing the New Zealand market, was presented the nightmare of an overpopulated Japan spilling its surplus millions down into the uninhabited spaces of Australia and so on to the inviting pastures of New Zealand.²⁸

Apart from the immediate contacts through Chinese immigration and certain commercial links New Zealand's interest in China was little aroused up till 1930. The birth of the Chinese Republic, the revolutionary movement of Sun Yat-sen culminating in the struggles of 1925-7, the problem of relations with Japan in the north prior to the Manchurian crisis; these were recorded sometimes in detail in the press cables. But they were of vital and intelligible interest only to a small group of habitual students of Pacific affairs, especially those inspired by and associated with the inauguration of the Institute of Pacific Relations in 1925. Very little history of the Far East was taught even in the universities and knowledge of the ancient culture and aesthetic achievement of the Chinese people was limited to a handful of New Zealanders.

The inevitable tendency has been for the popular concept of China to be compounded of prejudiced impressions of the Chinese coolies resident in New Zealand, overlaid with more exotic dashes of imagined Oriental color derived from Hollywood's Shanghai melodramas. Until 1931, at least, China remained for most New Zealanders a dim land of Cathay, peopled with war-lords, sinister mandarins and millions of starving peasants, and swept by unimaginable ravages of famine and flood. The social and political forces released by the 1925 revolution and the emergence of Chinese nationalism just prior to the Manchurian crisis were outside the general horizon of interest.

JAPAN: POLITICAL RELATIONS

While China, in the shape of the "yellow peril," touched New Zealand's colonial susceptibilities in the 'eighties, Japan remained remote and of little immediate concern until the Great

²⁷ In 1886 there were 4,542 Chinese in New Zealand; in 1896, 3,761; in 1901, 2,846.

²⁸ See pp. 18-9.

War. The Russo-Japanese War stirred some newspaper editors to predict a challenge to the Pacific balance of power from an emergent Imperial Japan. But the Anglo-Japanese Alliance of 1902 was warmly endorsed in New Zealand as evidence that Japan's rapidly expanding strength would be kindly disposed toward the British Empire. In contrast with Australia the repercussions of the Anglo-Japanese commercial convention of 1894 on New Zealand were slight. In Australia the conflict between "protectionists" and "free traders" and the rival views of an industrialized Japan as opportunity or menace to Australian commercial and labor welfare evoked a rigid popular concept of Japan as the real "yellow peril" as early as the 'nineties.²⁹ New Zealand, however, was less directly affected by the pre-War stage of Japanese industrialization and the volume of trade between the two countries remained small until after the Great War. Thus, New Zealand's total imports from Japan during 1910-13 averaged less than £150,000 a year, while exports over the same period averaged merely some £2,000 a year, reaching nearly £60,000 in 1914.

The outbreak of the War in 1914 brought Japan in as an ally of the British Empire. Gratitude for Japan's part in assisting the convoy of New Zealand and Australian troops across the Pacific was somewhat offset by anxiety as to the ultimate ambitions of the Japanese Navy in its energetic campaign of occupation of the German islands north of the equator. The British Government, at the outset, had sought to limit the activities of Japan to the China Seas, but later, by the secret agreement of February 16, 1917, she promised to support at the Peace Conference Japan's claims to retention of German rights in Shantung and the German islands north of the equator, in return for Japan's support for British claims to German islands south of the equator.³⁰ At Versailles, Australia and New Zealand yielded with some misgivings to the concessions already pledged to Japan. As noted earlier, one of New Zealand's fixed interests in the Pacific was the prevention of further foreign penetration south of the equator. For the moment, although its zone of influence was enormously widened, Japan was still outside that preserve of Anglo-Saxon security.

Compensation was sought by Australia and New Zealand in

²⁹ J. Shepherd, *Australia's Interests and Policies in the Far East*, Chapter 1.

³⁰ H. W. V. Temperley, *History of the Peace Conference*, VI, 634 ff.

the anticipated annexation of the German territories south of the equator. The proposal to include these under the novel mandate system was strenuously opposed by Mr. W. M. Hughes of Australia, who was supported vigorously by New Zealand's Premier, Mr. William F. Massey. The story of the controversy has been told many times, with varying degrees of dramatic color. What concerns us is the basic reason behind the stubborn opposition displayed. New Zealand and Australia simply refused to sanction a system which would open the islands of the South Pacific not only to the goods but to the nationals of all countries on equal terms. Supported by Mr. Massey, Mr. Hughes agreed to the compromise of the "C" class mandate control only when it was specified that the laws of the mandatory should apply without reservation to the mandated territory. Thus, for New Zealand Western Samoa was freed from the possibility of any Japanese or Chinese immigration wave. Or in the blunt manner of Mr. Hughes:

There could be no open door in regard to the islands near Australia. There should be a barred and closed door—with Australia as the guardian of the door.

The mandate over Western Samoa extended New Zealand's responsibilities in the Pacific, but until quite recently it did not involve any immediate change in the attitude toward Japan, beyond this impetus to firm maintenance of the "White New Zealand" policy.⁸¹

New Zealand's sensitiveness regarding certain fixed domestic interests was again touched at Versailles by the Japanese request that formal recognition of the principle of racial and national equality be written into the Covenant of the League of Nations. Several modifications were suggested by Japan in consequence of unrelenting opposition from the Pacific dominions, but Mr. Hughes and Mr. Massey demanded explicit exemption of the right of immigration from any formula to be adopted. Finally the proposal was dropped, after a controversy which had considerably injured Japanese and Chinese national feeling.

In New Zealand, as in Australia, these Versailles frictions aroused no little concern as to the future of Japanese immigra-

⁸¹ For accounts of New Zealand's administration of the mandate, see, e.g., Annual Reports on Western Samoa; *New Zealand Affairs*, Chapter on "The Mandate for Samoa" by W. H. Cocker; *Contemporary New Zealand*, pp. 209-17; F. M. Keesing, *Modern Samoa*.

tion in the Pacific. Japan's claims to equality of rights, coinciding with her rapid post-War rise as a naval and industrial power, now brought a new meaning in New Zealand minds to the so-called "yellow peril." Instead of importunate Chinese, the popular mind now envisaged the possible influx of surplus Japanese into the uninhabited spaces of Australia. And New Zealand's interests were felt to be inseparably linked with the "White Australia" policy. Fear of actual invasion was seldom seriously expressed: the "yellow peril" thrived on a vague but effective compound of race prejudice, economic self-interest and a certain feeling of insecurity in view of Japan's new status as a Pacific power. As far as immediate pressure of Japanese immigration was concerned, New Zealand, in contrast with the Chinese influx of the 'sixties, had no cause for complaint. There has never been more than a handful of Japanese in the Dominion: the census recorded 50 in 1926 and 102 in 1936. More significant to New Zealand was Japan's rapidly expanding export trade in cheap manufactured goods and textiles. The "yellow peril" suggested to local manufacturers the undercutting of their market by Japanese imports produced under abnormally low labor cost conditions.³² New Zealand factory workers, too, felt their security endangered by any considerable extension of the Japanese hold of the market and they were politically antagonistic to what they felt was production based on "sweated" labor of fellow workers in Japan.

Trade Treaty of 1928

By the late 'twenties, as indicated above, New Zealand had found Japan a valuable market for wool exports and set hopes on an expanding market for dairy products. It was largely due to pressure from the dairy interests that the 1928 trade treaty with Japan was negotiated. The treaty was important in New Zealand history inasmuch as it was the first agreement initiated independently by the New Zealand Government with a foreign power. It did not entail any New Zealand concessions to Japan since the latter already was enjoying most-favored-nation benefits under New Zealand's normal foreign tariff. But any future concessions which New Zealand might make to other countries

³² During the three years, 1918-20, imports from Japan averaged over £1,300,000 *p.a.*, as compared with the normally stable yearly average of just over £500,000.

under the foreign tariff were now to be extended to Japan. In return New Zealand gained a duty reduction of approximately 1½d. per lb. on butter exported to Japan and slight reductions in the duty on a limited number of such commodities as preserved vegetables and fruit, worsted yarns and wool tissues. The high hopes of New Zealand dairy farmers that Japan would prove a rapidly expanding market were not realized, but the treaty certainly improved both commercial and general relations between the two countries.³³

The 1928 treaty, coinciding with the arrival of Mr. I. Tokugawa in Sydney as Consul-General for Australia and New Zealand and with the visit of a Japanese naval squadron to New Zealand waters tended to allay some of the suspicion bred by the "yellow peril." Mr. W. A. Veitch, a prominent member of the Nationalist Party, voiced an increasing body of opinion when he told the House of Representatives:

Japan is a very powerful and influential nation. She is a very close neighbor of ours. When we look back over the record of the last ten or fifteen years we recognize that we owe something to Japan; and I believe that the people of New Zealand will welcome this agreement from the international point of view and will not be inclined to cavil over details. They will welcome it as a means whereby we may strengthen the goodwill which already exists between the people of New Zealand, as a part of the British Empire, and the people of Japan.

JAPAN AND NEW ZEALAND DEFENSE POLICY

New Zealand's membership in the League of Nations did not, before 1935, bring any departure from the traditional reliance on the British Government in foreign relations, but in certain respects the expanding strength of Japan, dramatized in her demands at Versailles, had a special influence on New Zealand's attitude to foreign affairs.

At the Imperial Conference of 1921 New Zealand supported the Australian contention that the Anglo-Japanese Alliance should be continued. Both felt that so long as Japan remained the ally of Great Britain there could be no menace to their security in the Pacific. New Zealand's viewpoint was substantially that of Mr. Hughes of Australia when he urged Parliament to grant him authority—

³³ For a full account of the background and details of the negotiations see *New Zealand Affairs*, Chapter on "Japan and New Zealand" by Guy H. Scholefield, p. 212ff.

To renew the Anglo-Japanese Treaty in some form acceptable to Britain, Japan and Australia, and if possible to America; provided that no renewal shall impair the principle of a white Australia.

The outcome of the Washington Conference of 1921-2 satisfied in large measure, however, Australian and New Zealand desires for some basis for security from a potentially expansionist Japan. The Four-Power Treaty guaranteeing the *status quo* of island territories in the Pacific, the 5:5:3 accord on naval strengths and the Nine-Power Treaty binding signatories to respect the sovereignty, independence and the territorial and administrative integrity of China appeared to have established for ten years, at least, a genuine system of collective security in the Pacific. New Zealand along with Australia approved particularly of the agreement between Britain, the United States and Japan that:

The status quo at the time of the signing of the present Treaty, with regard to fortifications and naval bases, shall be maintained,

in certain of their territories and island possessions in the Pacific and Far East. Japan was already obliged under the Covenant of the League not to fortify her mandated islands. From now on she agreed not to increase or improve existing defenses in the specified territories of the Kurile Islands, the Bonins, Anami-Oshima, the Loochoo Islands, Formosa and the Pescadores, and "any further island possessions which she might acquire in the Pacific." In consequence it was reasonable to conclude that the so-called "navalist school" advocating extension of the Japanese Empire southward had been effectively checked. On the other hand, the British Government had in no way allowed the non-fortification agreement to interfere with its right to construct a major Pacific base at Singapore, nor to prevent the use of islands adjacent to Australia and New Zealand for naval and air defense.

Neither optimism in collective security through the League of Nations nor promise of security given at Washington led to any abandonment of New Zealand's support for British naval defense schemes. It is perhaps unwise to attribute the British Government's original decision to construct a naval base at Singapore to any specific fear of Japan, but when in 1926, New Zealand's Prime Minister announced that the Dominion would contribute one million pounds, spread over a number of years,

toward the cost of the base, most New Zealanders felt that a conceivably expansionist Japan was the only potential threat from which they might have to be protected. It should be pointed out that the step was taken in a year of severe economic depression and called forth a good deal of criticism in Parliament and the press. The Government's point of view was put very clearly in the Prime Minister's reply to a letter from Mr. Ramsay MacDonald, Prime Minister in the British Labor Government:

You say that your "Government stands for international cooperation through a strengthened and enlarged League of Nations." In reply to that I must say that if the defence of the Empire is to depend upon the League of Nations only, then it may turn out to be a pity that the League was ever brought into being. The very existence of the Empire depends upon the Imperial Navy, and if, in the event of war, the navy is to operate successfully, it must have suitable bases from which to work, and where repairs may be effected.

Labor Party members, on the other hand, criticized the decision at this time both from principles of opposition to armaments and on strategical grounds. Indeed one must be careful not to exaggerate the extent to which the public felt that the base was a vital element in their defense at this particular time. When the Labor Government in England appeared likely to discontinue construction of the base, at least temporarily, a New Zealand observer commented on the reaction in the Dominion:

Opinion is divided . . . it can scarcely be said that public opinion is very much disturbed over the possibility that the work may be discontinued.³⁴

Nevertheless, with the exceptions noted, there was widespread, if unenthusiastic endorsement of the Government's decision to aid in the construction of the base. Those interested in the strategy of Empire defense saw in Singapore a necessary center for co-ordinating the "local unit" Pacific Fleet envisaged by Sir James Allen on behalf of New Zealand in 1913 and by Viscount Jellicoe in his report of 1919 already cited.

THE PRESS AND PUBLIC OPINION

Because of its isolation from both European and Far Eastern centers, New Zealand is influenced by the press in the forma-

³⁴ W. B. Matheson, "New Zealand Experiments in Relation to Pacific Problems," *Pacific Affairs*, January 1930.

tion of its ideas of the outside world more than most countries are. In both the city and small-town papers the amount of space devoted to foreign news is very generous. Its adequacy and continuity, however, depend very largely on the judiciousness of the Australian Press Association representatives (who provide the New Zealand press' cable service) in sorting out the news in London. Cable news on the Far East does not come direct to New Zealand but is sent either from London or from the Press Association representative in the United States. In London a selection is made from any of the cable services available to the London papers and, in addition, quotations from editorials in the British press are cabled along with news reports. During periods of tension and conflict in the Far East, there is generally a fairly wide coverage of the news and adequate representation of different British points of view, as well as of American opinion. In normal times, however, there is not any continuous contact with Far Eastern developments; rather, news tends to be scanty unless it is of some "headline value." Moreover, since editorials are based mostly on the cables, one finds little interpretative comment during periods of relative quiet in the Far East.

The obvious danger of popular reliance on this kind of news dissemination is the inability to derive any successive and coherent picture of developments in Japan and China. The picturesque and the sensational aspects tend to be headlined when all too frequently these are merely incidental to the basic forces directing a country's development. In terms of Japan, for example, popular impressions, at least until 1931, were liable to be fashioned from a blend of such familiar associations as cherry blossoms and geisha girls, tea drinking and hara-kiri, emperor worship, earthquakes, cheap fancy goods, extreme fecundity and the "yellow peril." The underlying determinants of Japan's development—concentration of monopoly-capital, the growing struggle between light and heavy industry, the diminishing powers of the Diet, the agrarian problem, the quest for raw materials and expanding markets—received little attention and less understanding.

It has been, indeed, unfortunate for the people of New Zealand as for those of Japan that there has been in New Zealand, at least until very recently, so little knowledge of Japanese history, politics and economic conditions. In the schools such scraps

of Far Eastern history as were taught entered only as aspects of British imperialist enterprise in the Orient. In the Universities a small number of students could get a smattering of Japanese history since the Meiji restoration, but this was insufficient to offset the effects of history traditionally taught in terms of "patriotism." In the words of an authoritative critic:

Patriotism was and for the most part still is, conceived almost wholly in imperial terms, and instruction in civics, dictated by examination prescriptions, was in most schools and until recently a curious mixture of the dry bones of constitutional procedure together with oburgations concerning imperialism. It is true that many teachers rise above these limitations; but the time allowed in the curriculum for such social studies as geography and history is utterly inadequate, and it is difficult even for the most idealistic of teachers to convey to their pupils a true idea of the rapid development of international relationships since the war. This is one of the most important illustrations of the time-lag in New Zealand's intellectual life.³⁵

It may be pointed out that there has been nothing in New Zealand corresponding to the Department of Oriental Studies inaugurated at the University of Sydney in 1918, though the establishment of such a chair in the University of New Zealand has been strongly advocated, in particular by Mr. W. E. Barnard, speaker of the House of Representatives.

The natural result of a lack of any widespread understanding of Japanese conditions was the uncritical acceptance of the "yellow peril" legacy. It was left to a few students of Far Eastern affairs to propagate the fact that Japan's population pressure would not find solution in any large-scale migration whether undertaken by agreement or force, but that the essential problem was to achieve a balanced industrialization capable of satisfying popular wants. With the access to power of the military party and their Manchurian venture in 1931-3, the logic of events forced a more realistic understanding of the dynamics of the modern Japanese state. On general retrospect, however, the following summarized comment is a fair estimation of New Zealand opinion:

Until 1931 public attitudes in New Zealand towards Japan were both varied and conflicting. Admiration of her truly remarkable material progress was combined with a feeling of suspicion engendered by the "yellow peril" legacy; a desire to build up an expanding export trade with an unwilling acceptance of cheap Japanese imports. On the whole, how-

³⁵ Condcliffe, *op. cit.*, p. 471.

ever, feeling was predominantly friendly. But with events that have subsequently followed realization of the ruthless ambition of the militarist party, there can be no doubt that this feeling has completely vanished. In its place there has developed an attitude of hostility and distrust.³⁶

ECONOMIC RELATIONS: GENERAL REVIEW

Toward the end of the 'twenties increasing sales of dairy produce and wool to China and Japan led to a good deal of optimism in New Zealand concerning an expansion of trade. The 1928 trade treaty with Japan, initiated largely as a result of pressure from New Zealand dairy-farming interests, was a step in the direction of realizing these hopes. In 1930, however, a survey made for the Department of Industries and Commerce analyzed the practical difficulties in the way of extending trade with the Far East and held out little promise for any considerable expansion of that market for New Zealand primary products in the immediate future.³⁷ It will be convenient to review briefly here the major limitations affecting New Zealand's trade with Far Eastern countries. The details of that trade will be examined later in the light of political developments within New Zealand and any changes in general trade policy.

The fundamental feature of New Zealand's economy is the very narrow range of its major exports: dairy produce, meat, wool, apples, hides and skins, and some other minor by-products of the meat industry. Of these butter and cheese make up on an average well over one-third, and meat nearly one-quarter of total exports. This is the basic reason why export trade to the Far East is not large. Dairy produce and meat of the quality supplied by New Zealand are beyond the purse of most of the populations of Eastern countries even where a partially European diet has been adopted and refrigerated space is available, as in Japan. It was anticipated by some New Zealanders that the growing industrialization of Japan and China would bring a rising standard of living and a correspondingly increased demand for pastoral products. But industrialization under the present economic system has not brought to the mass of the people of the Far East the ability to adopt higher dietary standards and without some substantial increase in effective demand for dairy products and meat the prospect of expanding the ex-

³⁶ *Contemporary New Zealand*, p. 223.

³⁷ H. Belshaw, *Report on the Prospects of Extending New Zealand's Trade with Japan, China and Hongkong*, 1930.

port of such products must remain limited. Apart from food products, New Zealand's other main exports, wool and hides (which make up about one-quarter of total exports) have been bought in increasing quantity in the East, particularly by Japan, as basic raw materials.

In consequence of the above facts New Zealand has had to rely on the United Kingdom market for about 80 per cent of her exports and her politics have been primarily concerned with methods of retaining and extending her share of this essential market. From time to time fresh markets, mainly in Europe, the United States and Canada, have been sought and, to some extent, found. In every case they have proved only subsidiary outlets in comparison with the United Kingdom market. This is especially true of Far Eastern markets, though big increases in the sale of wool to Japan and purchase of gasoline from the Netherlands East Indies over the last few years have given a new importance to trade with these countries. Primary reliance on the British market caused New Zealand, long before the Ottawa Conference, to adopt the principle of British preference as fundamental in her fiscal policy. Her import trade is normally from 75-80 per cent within the Commonwealth and colonial Empire, about 50 per cent coming from the United Kingdom. British preference, however, has not meant the erection of prohibitive or discriminatory tariffs against imports from Far Eastern countries. The basis of New Zealand's tariff has remained moderate protection for revenue purposes, combined with such considerations as the encouragement of local industry, the maintenance and extension of markets for New Zealand products and, of course, imperial preference.³⁸ The tariff structure was revised in 1921 and again in 1927, in a slightly upward direction. The effect of any changes was to accord the United Kingdom increased preference rather than to exclude foreign imports likely to compete with existing or potential domestic industries. The significance for Far Eastern trade of the Ottawa agreements is discussed in a later section of this study. The general effect of the post-Ottawa tariff changes was further to extend the range of British preference, though without increasing, with minor exceptions, the general tariff. By 1936 it could be said that:

³⁸ The introduction of exchange control and import licensing in December 1938 marks a new stage in fiscal policy. See p. 73 *et seq.*

out of the 652 items and sub-items in the New Zealand Customs Tariff schedules, with no less than 610 items, the goods of the United Kingdom enjoy either free entry or a preference over foreign goods; 376 provide for absolutely free entry from the United Kingdom (166 of these are free from all countries, the remaining 210 being dutiable if foreign), while 234 are dutiable, but the United Kingdom enjoys a substantial preference.³⁹

Nevertheless, nearly one-half of New Zealand imports are admitted free of duty, while the Minister of Customs has power to admit foreign goods into New Zealand under the preferential tariff if he is satisfied that they are "of a kind not produced in the British Commonwealth." Since 1934, characteristic rates of duty on foreign goods have been 40-45 per cent, though the range is from 10-60 per cent under the general tariff. In addition to the general tariff on foreign goods there are lower duties resulting from trade agreements with particular countries. These extend to all countries having most-favored-nation treatment with New Zealand, among which are included China and Japan. Hongkong and British Malaya, of course, come within the Empire preference system granted by New Zealand.⁴⁰ In recent years the increasing volume of imports, especially of Japanese manufactured consumers' goods, indicates that the New Zealand tariff has not been unduly restrictive.

In addition to the foregoing factors determining the extent of New Zealand's Far Eastern trade there has been the problem of direct shipping services. Up till 1930, New Zealand exports had to be shipped to Australia and then reloaded for the East, involving payment of extra freight and transshipping charges. The inauguration at the end of 1930 by the Osaka Shosen Kaisha of a monthly service from New Zealand to Japan via Australian ports reduced freight rates but did not eliminate heavy intercoastal freight and reloading charges between New Zealand ports prior to loading cargoes for Japan. Not until 1936 was a direct New Zealand-Japan service in operation.

This lack of direct access to Eastern markets undoubtedly tended to restrict New Zealand's trade more than the market potentialities, however limited, justified. Australia, on the other hand, has succeeded in building up a considerable export trade

³⁹ W. B. Sutch, *Recent Economic Changes in New Zealand*, p. 128. (New Zealand Institute of Pacific Relations.)

⁴⁰ For a comparison of the rates of duty on New Zealand imports from the Far East in 1930 and 1939, see Appendix III.

in dairy products and meat with the East.⁴¹ Certainly New Zealand lacked Australia's advantages of nearness to the East, adequate shipping services and a normally large and relatively stable share of the Japanese wool market as a basis for mutually expanding trade. Australia, through trade missions and the posting of trade commissioners, has, with occasional lapses as in 1936, made the most of her advantages. It is doubtful whether New Zealand governments have exerted maximum enterprise in opening up Eastern markets. During many a debate in the House of Representatives in the early 'thirties, Ministers were questioned concerning a direct shipping service or the possibility of sending a trade representative to the Far East. For the most part the reply followed the conventional evasion of being "under consideration." Until very recently New Zealand's trade with the Far East seems to have been characterized by the extreme of *laissez-faire* in consequence of a fundamental pre-occupation with the British market which, though subject to awkward restrictions from time to time, must remain New Zealand's chief commercial outlet and source.

Japan

Trade with Japan has consisted of the exchange of New Zealand's pastoral products: primarily wool, butter, casein, sheepskins and tallow; for Japanese manufactures: silk and artificial silk, cotton, linen and canvas piece goods, footwear, apparel, earthenware, glass and glassware, fancy goods and toys. In the 'twenties timber, chiefly Japanese oak, was also imported from Japan in some quantity. In 1914 New Zealand's total exports amounted to less than £60,000 while imports from Japan reached nearly £250,000. Japan's rapid post-War industrialization stimulated trade between the two countries, New Zealand exports between 1924-7 averaging over £200,000 annually while imports reached just under £600,000. This adverse balance of trade swung in New Zealand's favor for the first time in 1928 when New Zealand exports more than doubled in consequence of greatly increased Japanese wool purchases. Between 1924-7, the yearly export of wool to Japan had averaged some £170,000 but in 1928 the figure jumped to over £500,000. The bulk of New Zealand's wool still continued to go to the

⁴¹ E.g., Australian butter exports to the East: 1931-2, £709,000; 1932-3, £530,800 (in Australian currency) and meats: 1931-2, £337,000; 1932-3, £325,000.

British market, but the potentialities for expanding sales to Japan were seen in the fact that Japanese purchases in 1928 amounted to some 13 per cent of sales to non-British countries.⁴² Moreover, Japanese buying had become an important factor in helping to steady prices over the whole season of the wool sales.

The following table shows New Zealand's exports to Japan during the late 'twenties, and the relative importance of wool and butter in that trade:

<i>Year</i>	<i>Total New Zealand Exports to Japan</i>	<i>Per Cent of New Zealand's Total Exports</i>	<i>Exports of Wool</i>	<i>Exports of Butter</i>
1925.....	£232,213	0.42	—	—
1927.....	251,547	0.52	—	£22,430
1928.....	657,915	1.18	£588,226	13,275
1929.....	428,577	0.78	339,126	17,217

Increased sales of butter to Japan in 1926-7 aroused hopes that Japan as well as China would prove an expanding market for New Zealand's rapidly increasing dairy production. It was felt that Japanese industrialization would lead to expanding trade between Japan and Britain, with a consequent rise in Japanese standards of living and the gradual adoption of Western diet habits. To quote a representative opinion at the time:

The butter exporters of New Zealand have good reason for looking forward hopefully to the development of their new market in Japan, if not in China also. For fully forty years they have been encouraged from time to time by reports on the markets of the East most of which have led them to believe that a golden age will dawn for them when the Chinese and Japanese fall away from their old-time dietary and under Western influences gradually turn to the Western style of diet. With the increase in the number of Westerners living in China and Japan, there has already been a steady adoption of European habits of living amongst a large number of Chinese and Japanese; and the result is evident in the increasing export of foodstuffs from Australia and New Zealand in the Far East. According to information which has not yet received wide publicity recent developments in Japan have provided a fresh and very emphatic stimulus to the use of our products. . . . An investigation into the dietary of the Japanese army prompted by the undue prevalence of certain disorders in the soldiers has led to a recommendation that a ration of butter be added to the dietary. Whether this is adopted or not it is obvious that the investigations must give a great fillip to the consumption of butter in Japan.⁴³

⁴² In 1927, 77 per cent of New Zealand's wool exports (roughly 27 per cent of New Zealand's total exports) went to the United Kingdom, and 1.2 per cent to Japan. In 1931, 48.2 per cent was exported to the United Kingdom and 2.8 per cent to Japan.

⁴³ *New Zealand Affairs*, pp. 215-16.

Despite these hopes, and the stimulus of the $\frac{1}{2}$ d. per lb. reduction in duty on New Zealand butter as a result of the 1928 trade treaty, 1927 remained a peak year for the sales of butter to Japan. In 1929 the amount exported fell from 2,844 cwt. in 1927 to 2,206 cwt. and in 1930 to 1,695 cwt. From 1931-4 exports dwindled to 712, 603, 375 and 585 cwt. respectively.

Imports from Japan

During the latter 'twenties New Zealand's imports from Japan remained at a fairly stable volume as the following figures show:

<i>Year</i>	<i>Imports from Japan</i>	<i>Per Cent of New Zealand's Total Imports</i>
1922.....	£504,955	1.43
1925.....	693,632	1.32
1927.....	591,963	1.32
1928.....	576,495	1.28
1929.....	625,714	1.28
1930.....	589,413	1.33

From 1925 to 1928 the import of silk piece goods had an average annual value of some £330,000, well over half the total of imports from Japan. There were no marked increases in imports in any one year. Cotton (including linen and canvas) piece goods which had reached a value of some £170,000 in 1925 dropped to less than £60,000 over the years 1926-8. Apparel and fancy goods (including toys) averaged only some £22,000 and £16,000 respectively during the years 1925-8.

These figures may not suggest any "invasion" of the New Zealand market by cheap Japanese goods, but in many lines Japanese prices were so low that a given value represented a substantial increase in quantity over corresponding values from other countries. Hence local manufacturers and importers of British goods liable to compete with Japanese imports from time to time urged increased protection against imported manufactures from Japan. The Government of the day, consistently dependent on the support of the farmers interested in low-priced imports, kept on the whole to the policy of preferential treatment for British goods and the maintenance of a general tariff for revenue rather than for protection, except of a "moderate" character. It is interesting to note, however, that under the 1928 trade treaty no concessions were made to Japan beyond

the agreement to extend most-favored-nation clause advantages as they might arise.

China

Trade with China, despite optimistic vision of an expanding market through China's gradual industrialization and the adoption of Western diet habits, has been of very small proportions. Total New Zealand exports to China have rarely exceeded some £40,000 a year. At one stage, however, it did seem that China might usefully supplement the British market for New Zealand's surplus butter. In 1925 the amount of butter exported to China from New Zealand was only some 630 cwt., but two years later it had risen to 2,876 cwt., reaching a peak of 4,386 cwt. in 1930. The following are the figures showing New Zealand's exports to China for certain years with butter as a percentage of the total exports:

<i>Year</i>	<i>Total New Zealand Exports to China</i>	<i>Butter as Percentage of Total New Zealand Exports to China</i>
1925.....	£ 6,603	77.3
1929.....	36,348	87.0
1930.....	36,493	81.4
1933.....	54,564	14.7

The extent of New Zealand's butter exports to China may be seen in comparison with those to other Far Eastern countries from the following table:

<i>Country</i>	<i>Exports of New Zealand Butter (cwt.) for:</i>			
	<i>1926</i>	<i>1928</i>	<i>1929</i>	<i>1930</i>
China.....	800	3,790	3,896	4,386
Japan.....	1,886	1,740	2,206	1,695
Philippine Islands.....	1,653	427	2,313	1,703
Netherlands East Indies.....	1,228	1,074	1,074	975
Straits Settlements.....	—	2,575	2,180	2,374
Hawaii.....	9,206	10,340	10,944	9,942

In the 'thirties, however, the depression reduced sales of butter particularly to China and disappointed hopes for a new outlet for dairy produce in the Far East at least for the time being.

As far as imports from China go New Zealand has long had an "adverse" balance of trade. Between 1921-30 imports averaged approximately £120,000 a year, while exports were normally between £30,000 and £40,000 a year. (In 1923 and 1925 there were sharp declines to £12,000 and £7,000 respec-

tively.) The chief items of import have been walnuts, a little rice and tea, draperies and silk piece goods, vegetable oils, and brush-making materials.

Other Far Eastern Countries

New Zealand exports, prior to 1930, to British Malaya, Hongkong, Netherlands Indies and the Philippine Islands were of little importance, even in comparison with the volume of total exports to the Pacific area. The largest market was British Malaya which took some £25,000 to £30,000 of New Zealand exports between 1925 and 1930, consisting mainly of butter and preserved milk.

Imports from these areas, however, were of considerable importance to New Zealand's total trade. Mineral oils, sugar and kapok to the value of over £1,000,000 were imported from the Netherlands Indies in 1929. From British Malaya imports of preserved fruits, spices, sago, tapioca and gasoline totaled over £100,000 in 1929. From the Philippines about £25,000 of hemp a year was imported in 1928 and 1929.

CHAPTER II

RELATIONS WITH THE FAR EAST, 1930-1935

*THE DEPRESSION IN NEW ZEALAND*¹

New Zealand, being almost entirely dependent on world prices of agricultural products for its prosperity, suffered the full shock of the 1929 economic depression.

New Zealand, a small and wealthy country, had few centralized controls, no huge internal market, and an enormous over-seas trade—its traditional economic forms were rigid in the extreme. Despite its export control boards, its social services and its Arbitration Court, its economic gospel had been free trade and its political faith *laissez-faire*. The effect of the depression was therefore to produce in New Zealand almost an economic and social cataclysm.²

The extent of the shock to New Zealand's economy may be realized from the following:

It can well be understood that the impact of the depression on such a sensitive undifferentiated economy was disastrous. England had suddenly become the dumping ground for agricultural surpluses and, at the same time, had initiated her policy of protecting home agriculture. The repercussions of this on a young expanding country such as New Zealand could not be otherwise than severe.

The index number (based on pre-war values) of dairy produce prices tumbled from 146 in 1929 to 93 in 1932 and 77 in 1934; the index of meat prices fell from 183 in 1929 to 111 in 1932 and of wool from 171 in 1929 to 63 in 1932 and, be it remembered, that 65 per cent of national production is represented by these commodities; the total fall in the value of exports from the financial year ended March, 1939, to the year ended March, 1931, was 40 per cent, and prices continued to fall; the national income fell from £150,000,000 in 1929 to less than £100,000,000 in 1932; imports halved their value; the State railways were faced with increasing losses mainly due to the decrease in the transport of merchandise; unemployment increased at an unprecedented rate; and the Government was faced with huge prospective deficits.

The increasing decline in national income combined with

¹ For a full, well-documented account see W. B. Sutch, *Recent Economic Changes in New Zealand*, and H. Belshaw, *Recovery Measures in New Zealand*, both presented as data papers for the Sixth Conference of the I.P.R., 1936.

² Sutch, *op. cit.*, Preface.

the serious problems of rising unemployment and farm indebtedness brought the United and Reform Parties into a Coalition Government on September 22, 1931, for the purposes of saving New Zealand from further disasters. The formation of the National Government in England in the previous August undoubtedly influenced the parallel development in New Zealand. At the general election in December 1931, the Coalition Government with Mr. G. W. Forbes as Prime Minister received a substantial majority to embark on its "recovery" measures.

Briefly the policy had the following main aspects: first, the removal of the disparity between export and internal prices which was the crux of the problem; second, the balancing of budget; third, reducing the volume of unemployment and providing relief against the distress which unemployment occasioned; fourth, elaborating an appropriate trade policy; and fifth, devising new administrative instruments.³

It is not necessary here to consider these measures in detail nor to estimate to what extent they were responsible for New Zealand's partial recovery from the worst of the depression in 1934-5.⁴ What concerns us is the effect of internal conditions during the depression years on economic and political relations between New Zealand and the countries of the Far East.

The most obvious feature of New Zealand's general condition after the onset of the depression at the end of 1930 was the degree to which the vast majority of the people were wholly absorbed in its effects. By 1932 the mere daily struggle for food and adequate shelter was the preoccupation of a sharply increased proportion of the population. Unemployment increased steadily and neither local nor Government relief measures gave any cause for satisfaction.⁵ New Zealand in fact was plunged between 1931 and 1934 into a state of social tension bordering on the pathological. Supporters of the Government took some courage from the tenaciously held faith that "economy," carried out with a firm hand, would lead inevitably to recovery. Its opponents criticized its personnel and policies as incompetent or intolerable according to their political temper. Whether friend or foe of the Government, no New Zealander was untouched by the crisis and the great majority were entirely ab-

³ H. Belshaw, *op. cit.*, p. 22.

⁴ *Ibid.*, pp. 22-37.

⁵ The number of unemployed men increased from over 11,000 at the end of 1930 to over 48,000 in November 1931 and nearly 53,000 in November 1932.

sorbed in its hardships, passions and fears. At no other time in its history, perhaps, was New Zealand less disposed to be interested in the outside world except in so far as the latter reflected or related to its own fevered condition. Certainly it was no time for the average New Zealander to turn an objective eye toward Sino-Japanese relations in far-off and little-known Manchuria.

The chief economic consequence of the Government's deflationary measures, combined with the continuing fall in income from exports, was a sharp decline in aggregate purchasing power. This was reflected in the reduction of total imports from £44.3 million in 1930 to £26.5 in 1931, £24.6 in 1932, £25.6 in 1933, with a rise to £31.3 million in 1934. Figures for imports of miscellaneous consumers' goods (such as hardware, motor-cars, books and papers, earthenware and chinaware, glassware, fancy goods, toilet preparations, gramophones and radios, etc.) illustrate even more clearly the loss of purchasing power for imports of "non-essential" and luxury goods. In 1929 total imports in this "miscellaneous commodity" category reached about £8 million. By 1932 the figure had fallen to £2,504,000 and in 1933 to £2,244,000 (sterling).⁶ Since the great proportion of imports from Far Eastern countries, especially from Japan, are goods of this class it will be found that exports from these countries fell away considerably during the depression.

Although it is impossible in fact to draw any clear distinction between the economic and the political aspects of the depression in New Zealand, it is possible to separate for convenient presentation economic relations with the Far East from the more obviously political. Hence trade relations as a whole, in the light of New Zealand's abnormal condition at that time, are discussed in the next section while political relations are reviewed in connection with the Manchurian crisis treated later on.

OTTAWA, THE BRITISH MARKET AND TRADE WITH THE FAR EAST

At the Ottawa conference in 1932 New Zealand's representatives urged preference in the British market over foreign supplies of dairy produce and meat by means both of quantitative regulation and a tariff applicable to foreign produce only. Regarding dairy produce the dominions were granted exemption from duties which might have been imposed after November 15, 1932, while such duties were levied on foreign products (on

⁶ *New Zealand Official Year Book, 1938*, p. 842.

butter, 15 shillings per cwt.; cheese, 15 per cent ad valorem). However,

the United Kingdom reserved the right after three years either to impose a duty on empire products—while maintaining the preferential bargains,—or to bring such products under a general scheme of quantitative regulation. . . . For meat, the United Kingdom proposed a plan of quantitative regulation and . . . agreed that “a policy will be adopted that will have for its definite objective the twofold purpose of raising the price of meat to a remunerative level and of progressively increasing the share of the Dominions in the United Kingdom market.”⁷

The relevance of Ottawa for New Zealand's trade with the Far East was primarily the extent to which the British market could in consequence be retained or expanded to absorb New Zealand's expanding pastoral production. Without some degree of preferential treatment, accompanied by the Ottawa promise of orderly marketing and planned regulation of supply on the part of the British Government, New Zealand would have been the more compelled to seek foreign markets, particularly in the Pacific, to compensate for the inadequacy of an oversupplied and low-priced British market. In regard to dairy products, however, rather than face further price falls on an overstocked market the New Zealand Government soon after Ottawa accepted, despite opposition from many dairy farmers, the principle of quantitative restriction of all supplies coming onto the British market, a policy foreshadowed in various statements made by the British Government during 1933. But the anticipated regulation of supplies was not introduced. Instead the British Government took steps to protect their own producers through various kinds of subsidies,

steps which not only excluded New Zealand and Australia from consideration but which would actually operate against these Dominions, particularly New Zealand, which is by far the largest exporter of cheese to the British market.⁸

The result was that butter prices continued to fall on the unregulated London market, while New Zealand farmers expanded production in the attempt to sustain their incomes. The only substantial relief came with the Government's decision in January 1933 to depreciate the New Zealand pound from £NZ 115 = £100 sterling to £NZ 125 = £100 sterling. With the

⁷ Sutch, *op. cit.*, pp. 52-4.

⁸ Sutch, *op. cit.*, p. 96.

possibility of further restrictions in the United Kingdom market, the problem of outlets for expanding primary production still remained.

Little has been said of the important discussions of 1934-5 between the British and New Zealand Governments concerning the regulation of supplies and a British-proposed levy on Empire meat for the British market.⁹ Any repercussions which such negotiations had in the way of stimulating New Zealand to look for other markets did not directly touch the Far East since neither Japan nor China had bought any New Zealand meat in 1932-3, Japan taking a negligible 600 cwt. in 1934 and approximately the same amount in 1935.¹⁰

In view of the depressed and congested state of the British market, especially for dairy produce, one might have anticipated a drive on the part of New Zealand exporting interests for additional markets in the Far East and elsewhere. Dissatisfaction with the Government's alleged apathy in this respect was voiced by Mr. R. McKeen in the House of Representatives at a time when the Ottawa discussions were apparently yielding more controversy than fruitful achievement. Mr. McKeen referred to Professor H. Belshaw's *Report on the Prospects of Extending New Zealand's Trade with Japan, China, and Hong-kong*, made in 1929. He pointed out that, while the report had not been published in the New Zealand press, it had received wide attention in Australia and had been to a considerable degree responsible, he claimed, for the activity of Australian businessmen and the Government in furthering trade relations with the Far East. The speaker pointed out that New Zealand's butter and cheese exports to the Far East had been declining since 1928 while Australia's exports had considerably increased over the same period.¹¹

The Government claimed interest in the possibility of expanding New Zealand's market in the Far East. In October 1933, the Minister of Lands, Mr. E. A. Ransom, told the House of Representatives that it was essential for New Zealand to expand her existing outlets for primary produce—especially butter, dried and preserved milk and casein. He pointed out that the British market, though giving New Zealand preference un-

⁹ *Ibid.*, Chapters V and VI.

¹⁰ See p. 70, for 1936-7 figures.

¹¹ *New Zealand Parliamentary Debates*, October 28, 1932, Vol. 233, pp. 947-8.

der the Ottawa agreements, could by no means absorb New Zealand's potential output. Nor could the possibility of quota restrictions on New Zealand's present share of the British market be ignored. The Minister was optimistic concerning the prospects of increasing New Zealand's primary exports in eastern markets. He compared New Zealand's trade position with that of Australia during the depression. In 1929, New Zealand's exports to the East had reached nearly £1,000,000 which by 1931 had fallen to under £400,000 with a heavy adverse balance of trade against New Zealand. Australia on the other hand had increased her exports to the East from £17,500,000 in 1930 to over £21,000,000 in 1932. The Minister took courage from the success of a commercial rival in the happy conviction that the superiority of New Zealand products would enable her to take first place in the future:

I feel that even if we have to stand up to a measure of control in regard to our exports to Great Britain there are wonderful possibilities in the Far East, because we produce an article far superior to that which Australia produces.¹²

Despite the Minister's vision of rapidly expanding trade between New Zealand and the East little was done during 1930-5, either by the Government or private enterprises, to foster closer economic relations with New Zealand. This apparent apathy contrasts with the determined and fruitful efforts made by the Australian Government and private enterprise to promote Far Eastern trade, especially with Japan, at this time. Nevertheless several factors must be borne in mind regarding New Zealand's potential extension of Far Eastern markets. In the first place, the British market remained all-important and it was inevitable that the New Zealand Government's main efforts should be concentrated on negotiating to conserve that market during 1932-5. Secondly, the hopes that the 1928 trade treaty with Japan would produce expanding sales of butter had not materialized. Thirdly, any direct move toward extending trade with Japan would meet, as in Australia, with opposition from domestic manufacturers on the grounds that their interests and New Zealand's standard of living would be sacrificed by the resulting increase of "sweated" Japanese imports. Finally the lack, until 1936, of a direct shipping line be-

¹² *New Zealand Parliamentary Debates*, October 12, 1933, Vol. 236, p. 413.

tween New Zealand and Japan was a serious limitation on any potential expansion of mutual trade, since the limited existing service involved both heavy local transshipping charges in New Zealand as well as reloading charges at Australian ports. During 1932-3 repeated questions were put in the House of Representatives concerning the possibility of a direct service. The Prime Minister's consistent reply was that the subject was "under consideration," though how seriously was not revealed. Trade with Japan was not the only interest involved; there was the prospect of expanding exports to the Netherlands East Indies, Malaya, Hongkong, and the Philippines.¹³ Thus in October 1932, Mr. J. A. Nash quoted to the House of Representatives a letter he had received from a prominent business house in Singapore:

The only way in which New Zealand could hope to build up a trade with the Far East is by putting on a direct steamer . . . with regular sailings . . . so that importers know where they are.

Apparently, however, the Government did not feel that the potential expansion of trade with the East justified taking responsibility for initiating such a service at this time.

EXPORTS TO THE FAR EAST, 1930-1935

In the light of the foregoing considerations of New Zealand's internal problems and relations with the British market the statistics of trade with Japan and China may now be examined. The following table shows the main trends:

<i>Year</i>	<i>Value</i>	<i>Exports to Japan</i>	<i>Exports to China</i> <i>Value</i>
		<i>Per Cent of Total New Zealand Exports</i>	
1930.....	£154,741	0.34	£36,493
1931.....	267,899	0.76	17,625
1932.....	236,799	0.67	15,413
1933.....	354,462	0.86	54,564
1934.....	856,014	1.81	19,099
1935.....	432,495	0.93	7,718

China

The above figures show that the New Zealand exports to China were in 1930, for example, only a fraction of the 9 per

¹³ In 1930, New Zealand's exports to these areas were approximately £60,000 (as compared with total exports to China of some £36,000 and to Hawaii of some £110,000). In 1932 exports had declined to approximately £47,000 for those areas.

cent of New Zealand's total export trade going to non-British countries. The increase in exports for 1933 was due to the Government-subsidized sale of some £35,000 of wheat. Prospects of expanding sales of dairy produce remained unrealized, although the depression was a natural cause of the decline from the 4,386 cwt. exported in 1930 to a yearly average of roughly 1,500 cwt. during 1932-5. Dried and preserved milk exports increased suddenly in 1932 to nearly 200,000 lbs. from a negligible 1,000 lbs. in 1931. In 1933 the figure rose to over 276,000 lbs. but declined in 1934-5 to an average just over 80,000 lbs. a year. However, as New Zealand's total exports of dried and preserved milk averaged annually over 17,000,000 lbs. during 1931-5, the trade with China was of little importance except in the peak years 1932-3. The possibility of expanding this trade with Far Eastern countries was indicated both in the 1932-3 sales to China and in the expansion of exports to British Malaya from approximately 1,360,000 lbs. in 1932 to over 2,100,000 lbs. in 1934 and 2,700,000 lbs. in 1935.

Japan

It is worth noting that in 1930 the share of New Zealand's exports taken by Japan was the lowest for the whole decade 1925-34—only 0.34 per cent in a year in which exports to all foreign countries made up 9.04 per cent of New Zealand's total export trade. In 1934, however, when the full effect of New Zealand's depreciation of its currency and improving wool prices combined to give the export trade its first upswing from the worst of the depression and when 12.17 per cent of total exports went to foreign countries, Japan took 1.81 per cent of New Zealand's total exports.

The most important item of exports to Japan was wool (the greater part greasy wool) which made up normally from $\frac{1}{2}$ to $\frac{2}{3}$ of New Zealand's exports to Japan. Thus, though the amount of wool exported increased steadily (from approximately 2.5 million lbs. in 1930, 6.1 million lbs. in 1931, 7.5 million lbs. in 1932 to 9.4 million lbs. in 1933), the total value remained far below that of 1929 owing to the fall in prices. But, as pointed out above, New Zealand's problem during these years was not only that of the reduced value of primary exports but of finding markets for expanding production. Actually the output of wool between 1928 and 1932 increased by some 7.6 per cent.

and, although the amount of wool sold to Japan between 1930 and 1933 was only some 3 per cent of New Zealand's total wool exports, the steady demand from Japanese buyers at the wool sales was becoming an increasingly important factor in preventing prices falling any further as well as in providing a useful outlet supplementary to the markets of the United Kingdom, France and Germany. Between 1924 and 1933 the average amount of wool exports sold outside the United Kingdom was about 25 per cent yearly. After 1933 the proportion sold outside the United Kingdom market rose steadily until it reached 40 per cent in 1936. In 1934, Japan increased her purchases from 9.5 to 12.5 million lbs. and ranked fourth after the United Kingdom, France and Germany in the market for New Zealand wool. The expanding sales of 1934 resulted partly from the depreciation of the New Zealand pound in the previous year.

The possibility that Westernized diet habits in Japan might bring an increasing demand for New Zealand dairy produce and frozen meat showed little sign of materialization as far as sales to Japan were concerned during these years. The amount of butter shipped to Japan decreased from 1,695 cwt. in 1930 to 603 cwt. in 1932, 375 in 1933, 585 in 1934 and a bare 85 cwt. in 1935. The export of dried and preserved milk was negligible in 1930 and 1931, rose to some 48,000 lbs. in 1932 and then dropped to less than 30,000 lbs. on a yearly average until 1935. The other chief items of export to Japan were casein and tallow, both of which showed marked increases in 1934. The export of casein to Japan was becoming particularly important as the following figures show:

<i>Year</i>	<i>Casein: Exports to Japan</i>	<i>Casein: Total Exports</i>
1933.....	£ 52,436	£ 93,742
1934.....	92,342	149,666
1935.....	128,667	161,700

IMPORTS FROM THE FAR EAST, 1930-1935

A major local consequence of the depression was the revival of the demand from New Zealand manufacturers for further protection against foreign imports. Competition in the main came from the United Kingdom manufacturers and at the Ottawa Conference the New Zealand delegation secured recognition by the British Government of its right and principle to

provide reasonable protection for domestic industries. However, when the Government introduced the revised post-Ottawa tariff in 1934, it did not depart from New Zealand's past fiscal policy of moderate protection combined with increasing preference for British goods. "By this time, the Government had fully worked out a tariff policy in relation to domestic industry but even so the Ottawa Agreement had, so to speak, put the words into its mouth, and in addition England had there specifically recognized New Zealand's right to protect her industries. The statement of policy, however, went no further than confirming the existing tariff arrangements, that is except where duties were not reduced. The point is that, despite severe depression in industry, the announcement of policy did not produce a crop of higher protective duties, quite the contrary, in fact."¹⁴ The main effect of the 1934 tariff on exporting interests in the Far East was to give United Kingdom manufacturers considerably increased preference in the New Zealand market. It did not, except in isolated cases, increase the existing duties against foreign imports.¹⁵

On occasions the agitation in New Zealand for protection in domestic industries took the form of protests against the "menace" of Japanese competition. During 1932-3 there were frequent controversies in the House of Representatives concerning Japan's place in New Zealand's import trade. Thus in a speech made in November 1933 Mr. James Hargest warned the House of Representatives that Japan's acquisition of Manchurian resources of labor and raw materials would lead to increasing danger from Japanese imports into New Zealand. He advocated as high a duty as possible on Japanese goods:

We cannot put an embargo on Japanese goods because that would be a hostile act. . . . But we ought to urge upon our people that everytime they buy cheap Japanese goods they are helping to deprive some British workman of his livelihood and his capacity to buy our products.¹⁶

Another member of the House, Mr. R. McKeen, had urged the same point of view more strongly in a previous debate. In view of Japan's abnormally low cost of production, he contended that

¹⁴ *Contemporary New Zealand*, p. 66.

¹⁵ See Appendix III.

¹⁶ *New Zealand Parliamentary Debates*, November 21, 1933, Vol. 237, pp. 422-4.

tariff increases were in themselves an inadequate protection for New Zealand standards of living. He proposed the introduction of import-export licenses on the basis of a pound for pound reciprocity of trade between New Zealand and Japan.

A different attitude to Japan's position as an expanding competitor of local and British exporters was put to the House of Representatives by Mr. W. E. Barnard on October 5, 1933. He said he did not want to minimize the fact of competition from increasing Japanese imports, but he felt that the alleged injury to local manufacturing interests had been exaggerated. He pointed out that the total imports from Japan in 1931 reached only some £300,000 and in 1932 about £470,000, as compared with nearly £600,000 in 1930. He went on to deplore "the increasing of our military and naval defense as a safeguard against Japan" and urged the negotiation of a trade agreement.

Japan

The volume and nature of imports from Japan during the depression years would not appear to have injured domestic manufacturers except in isolated cases. It is true that Japan's early depreciation of the yen gave her added bargaining power in New Zealand as in other markets, and, although after 1932 imports from Japan certainly increased both in value and volume, they were not at this time in serious competition with homemade New Zealand goods.

The following table shows the trend of import trade with Japan:

<i>Year</i>	<i>Imports from Japan</i>	<i>Percentage of Total New Zealand Imports</i>
1930.....	£ 589,413	1.33
1931.....	332,281	1.26
1932.....	476,758	1.94
1933.....	675,571	2.64
1934.....	836,595	2.67
1935.....	1,100,150	3.03

The most important items remained, as in the 'twenties: silk piece goods, cotton and linen piece goods, apparel, fancy goods, toys and timber. Silk piece goods continued the most important single item; there was a decline from some £325,000 in 1930 to about £230,000 for 1932 and 1933 and then a rise to £295,000 in 1934 and nearly £400,000 in 1935. It is interesting to compare

the fluctuating share of Japan in the New Zealand market for silk piece goods with that of the United Kingdom:

*Percentage of New Zealand Imports
of Silk Piece Goods from:
(by value)*

<i>Year</i>	<i>United Kingdom</i>	<i>Japan</i>
1923.....	17.6	40.0
1927.....	15.6	45.4
1930.....	35.6	29.6
1931.....	38.5	24.4
1932.....	40.6	30.9
1934.....	42.4	33.6
1935.....	33.2	45.1

In cotton and linen piece goods Japan had supplied 7 per cent of total New Zealand imports in 1925 while the United Kingdom supplied 86.2 per cent. By 1932 we find Japan's share falling to a mere 1.7 per cent and that of the United Kingdom rising to 93.7 per cent. However, in 1935 Japan was supplying 8.1 per cent while the United Kingdom's share had dropped to 85.6 per cent, and after 1935 Japan continued to expand her share of the New Zealand market in both silk and cotton piece goods.

Considerable increases in the imports of Japanese apparel, fancy goods and toys took place during 1934-5. In 1935 Japan was second after the United Kingdom as a source of New Zealand imports of apparel, the amount from Japan having more than doubled since 1932. Similarly in regard to the fancy goods and toys, Japan's share in the total imports of which had amounted in 1932 to only 6.5 per cent increased sharply to 18.9 per cent in 1933, 18.7 per cent in 1934 and 15.6 per cent in 1935. It may be noted that these increases were secured by Japan mainly at the expense of French and German rather than British exporters, but in themselves the increases appear to have been the normal result of increased consumers' purchasing power in New Zealand after the worst depression period of 1931-3, rather than of any Japanese attempt to "flood" the New Zealand market.

An import item of increasing importance in the early 'thirties was that of Japanese boots and shoes. In 1931, less than 1.7 per cent of New Zealand's imported boots and shoes came from Japan. In 1932, Japan's share rose to 5.5 per cent, in 1933 to 14.3 per cent, and then dropped slightly to 10.6 per cent in 1935.

This rise in imports of Japanese boots and shoes gave rise to a good deal of controversy concerning the alleged threat to the New Zealand industry. However, it should be pointed out that imports from Japan were primarily rubber-soled canvas shoes and rubber-gum boots—a type not at that time manufactured in New Zealand. Thus though imports from the United Kingdom and Canada might suffer from increasing Japanese competition New Zealand producers were little affected. Actually the local output of leather boots and shoes has considerably increased, from 120,501 dozen pairs in 1927-8 to 166,789 dozen pairs in 1936-7. On the other hand imported leather footwear has declined from 101,138 dozen pairs in 1928 to 47,351 dozen pairs in 1936.

Essentially the agitation from local manufacturers against increasing Japanese imports was more a symptom of general depressed conditions affecting their output than the cause of their distress. With the beginnings of "recovery" bringing increased production by manufacturers in 1934-5 less was heard about the menace of Japanese competition, even though Japanese imports nearly doubled in value between 1933 and 1935.

China

Total imports from China declined in the depression years and prospects of any expansion in trade appeared limited. In 1922, imports from China had amounted to £132,939, in 1928 to £129,533, while by 1931 they had fallen to £82,257. The most important single item during these years was edible nuts, mainly walnuts, which accounted on an average for some £25,000 to £30,000 a year. Formerly tea had been an important item imported from China but after the mid-twenties it was obtained almost entirely from Ceylon and India. In 1925, China had exported nearly £110,000 of tea to New Zealand, but in 1928 the figure dropped to some £6,000, in 1930 to £4,500, rising slightly to £6,300 in 1934.

Netherlands East Indies

New Zealand had an increasingly adverse balance of trade with the Netherlands East Indies, despite severe restrictions on imports during the depression years. Exports from New Zealand between 1931-4 averaged only some £6,000 a year but imports from the Netherlands Indies ranged from just under to

well over £1,000,000 a year. The main items of imports were mineral oils, chiefly gasoline, sugar and kapok. During the 'twenties New Zealand imported sugar chiefly from Fiji but from 1930 on there has been a heavy decrease in imports from Fiji, and a corresponding rise in supplies from the Netherlands Indies. Between 1932 and 1934 imports from the Netherlands Indies averaged over £500,000 a year, equivalent to nearly 80 per cent of New Zealand's total imports of sugar.

Since 1932 the export of gasoline from the Netherlands Indies to New Zealand has increased considerably, chiefly at the expense of the United States. In 1930 the United States had supplied about two-thirds of New Zealand's imports, the Netherlands Indies exporting some £550,000, just about one-third of the United States figure, but by 1934, imports from the United States had dropped less than £400,000, while the Netherlands Indies rose to £650,000. In 1936, imports of gasoline alone from the Netherlands Indies reached just over £1,000,000, amounting to nearly two-thirds of New Zealand's total supply.

The increasing share of the Netherlands Indies in New Zealand's import trade as contrasted with that of Japan is seen from the following table:

<i>Year</i>	<i>Percentage of Total New Zealand Imports Supplied by:</i>	
	<i>Netherlands East Indies</i>	<i>Japan</i>
1930.....	1.91	1.33
1932.....	3.53	1.94
1934.....	4.41	2.67
1935.....	3.96	3.03
1936.....	3.90	3.01

THE MANCHURIAN CRISIS: GOVERNMENT POLICY

New Zealand reactions, whether of the Government, press or public opinion, were to a large degree shaped by the deepening economic and social crisis at home. It was on September 18th—the very day of the Mukden incident—that the Prime Minister, Mr. G. W. Forbes, announced the agreement to form a coalition government between the United and Reform Parties. With a general election set for December 2nd, the country's attention was riveted on home affairs, but as the range of hostilities widened from Manchuria to Shanghai, and more and more news from the Far East occupied the headlines, public interest was diverted at least spasmodically from purely domestic troubles.

Of the Government's attitude toward the dispute there is little to be said. Officially New Zealand's foreign policy, like that of the British Government, was based on allegiance to the Covenant of the League of Nations. In fact, it reflected a largely uncritical fidelity to whatever course the British Government chose to adopt. At Geneva nothing was said by New Zealand's representative which indicated concern over the fate of the League's efforts to settle the conflict. The attitude of the Government had been illustrated in a speech by the Prime Minister in which he complained with some bitterness concerning the 1931 increase of £1,264 in New Zealand's annual contribution to the League, then amounting to the not immodest total of £12,000.¹⁷

The New Zealand Government's indifference to the issues underlying the dispute contrasted sharply not only with the attitude of the other dominions like Canada and South Africa, but also with the viewpoint of most of the smaller powers. In the opening stages the latter had been content to withhold criticism of the policy of the major powers on the League Council, but after the apparent rejection of United States co-operation by the British Government in January and February of 1932, their representatives spoke out strongly at the March session of the Assembly: "These Powers for the most part had neither interests nor responsibilities in the Far East . . . but they all felt themselves to be vitally concerned in the maintenance of the system's security—with the Covenant of the League of Nations as its chief cornerstone—which was in dire peril as a result of the actions of one of the disputants."¹⁸

The delegates of New Zealand and Australia, on the other hand, "held their peace." If they had any moral misgivings as to Japan's policy they preferred to restrain them in the interests of the course of conciliation sponsored by Sir John Simon. Some insight into their motivation has been attempted in the following classic analysis:

It is not so easy to understand the view which Australians and New Zealanders took of the Japanese adventure on Chinese soil when they did give their minds to it. Their predominant mental reaction appears to have

¹⁷ A. D. McKinlay, "The New Zealand Metropolitan Press" in *Pacific Affairs*, January 1933.

¹⁸ *Survey of International Affairs, 1932*, Royal Institute of International Affairs, p. 575.

been a sheer sense of relief that the Japanese tiger, now that he had made, at last, his long-expected spring, had chosen to leap the Yellow Sea and bury his claws in the flesh of China, instead of attempting to leap the Pacific and seek his prey in New Zealand or Queensland. They reckoned, apparently, that, for the moment, Japan had "bitten off as much as she could chew," and that eventually she would emerge from her Chinese adventure either satiated or exhausted, and in either event less formidable to her other neighbors than she had been before. They do not appear to have reflected that it is not so easy to set limits to a tiger's range if once he has been permitted to break out of his cage, and that, if he proves a "man-eater," his appetite becomes insatiable when he has had his first taste of human blood. Ignoring these considerations, they are apparently inclined to regard the break-down of the collective system of security as a cheap price for the privilege (accorded in the fairy-tale to Odysseus by the Cyclops) of being eaten last.¹⁹

Yet it may be doubted whether the New Zealand Government at the time was alive to such Machiavellian principles. Its attitude toward the conflict appears to have been the negative one of minimal concern combined with instinctive reliance on the British Government to provide a solution. Thus when the leader of the Opposition, Mr. H. E. Holland, asked in the House of Representatives on February 28, 1933, that a motion be drafted approving the attitude of the League of Nations at that stage of the Manchurian crisis and calling upon Japan to accept the League's decision, the Prime Minister made the following reply:

While the Government deplores the position that has developed it is of the opinion that no useful purpose would be served by raising this matter at the present juncture. New Zealand is a member of the League of Nations and the position of Manchuria is still under consideration by the League. The Government earnestly trusts that a peaceful solution can still be found.²⁰

In actual fact the Government's energies were wholly absorbed in the dizzy fall of export prices and riots of unemployed in the cities. Alongside this deepening domestic crisis the future of Japanese expansion in Asia and the fate of the League of Nations counted little. Moreover, Japan was still a useful additional outlet for New Zealand wool, and, it was felt that the British policy of conciliation and compromise would be most likely to preserve and possibly expand that market in the future. Thus official New Zealand opinion tended to reflect that of Australia's delegate at Geneva, Mr. S. M. Bruce, when he told

¹⁹ *Ibid.*, pp. 532-3.

²⁰ *New Zealand Parliamentary Debates*, Volume 235, p. 770.

the December 1932 session of the League Assembly that his country was opposed to any resolution involving open or implied censure of Japan on the grounds that it would make conciliation difficult.

THE PRESS AND PUBLIC OPINION

The lack of any articulate official attitude toward the Manchurian conflict was not paralleled in the New Zealand press. Although the impending general election of December 1931 absorbed the headlines at first, a contemporary survey of the leading daily newspapers revealed that "the cable news presented reasonably full, accurate and continuous record of developments."²¹ Editorially none of the influential papers had shared the Prime Minister's querulous attitude toward New Zealand's increased contribution for League of Nations expenses, and now with the League's assumption of responsibility for the Manchurian crisis they expressed lively concern for the effect on the League's prestige. There was general agreement in the press that despite the niceties of diplomatic procedure a state of virtual war existed which was a decisive challenge to the Geneva system of collective security.

The general anxiety lest the League should overtax its capacities in the attempt to settle the conflict was especially emphasized in the *Christchurch Press*, one of the best-informed papers on international affairs. The *Press* advocated that the League should confine its efforts to European disputes until it was strong enough to handle crises so remote from Geneva as the Far East. It suggested that the Manchurian conflict would be better negotiated by a regional international organization capable of supplementing the work of the League in such instances. It urged that the League's chief function should be to bring the facts into the open and hope that international opinion could enforce a satisfactory settlement.

Other papers, on the other hand, considered that firm action by the League was essential as much for its own future welfare as for the restoration of peaceful conditions in North China at the time. Thus the *Auckland Weekly News* commented:

"Even the mobilizing, by the United States, of 'world opinion' has but

²¹ A. D. McKinlay, "The New Zealand Metropolitan Press" in *Pacific Affairs*, January 1933. References in this section are drawn from the above unless otherwise indicated.

a slender chance of checking actual war." Unless an immediate agreement could be reached there was "no safe course except a fiat by the League, but refusal to attempt it would inflict worse injury on that prestige and give the Orient a virtual invitation to carry on its local and expanding strife."²²

As to the merits of the contending parties most editors claimed an impartial attitude in the first stages of the conflict, only one being clearly "pro-Chinese" and one "pro-Japanese." But with the extension of hostilities by Japan early in 1932 the majority of the leading papers expressed "a firm condemnation of Japan's breach of her obligations and her unwillingness to countenance the intervention of the League. New Zealand papers were in this respect less sparing than the London *Times* which evidently had great difficulty in reconciling its imperialistic sympathies with its duty to uphold the obligations of the British Government to the League. At the same time they clearly recognized the weaknesses of China's case, notably her inability to enforce her sovereign rights."

In some cases, however, concern for British interests in China was a more compelling stimulus to the advocacy of positive League action than the obligations of the Covenant. Thus the Auckland *Weekly News*, after Japan's incursion into Shanghai, commented editorially:

Gone into the background now are the rights and wrongs of the Manchurian dispute. . . . In the most recent events Japan has been placed utterly in the wrong. . . . To use Shanghai as a base for belligerent operations against China is, in view of the covenanted shelter of this place for foreigners, a shocking breach of good faith. . . . Her quarrel with China gives no ground for breaking her word to Powers guiltless of seeking to thwart what she deems a justifiable purpose in Manchuria.²³

Given the degree of social crisis paralyzing New Zealand in 1932-3, it was inevitable that the majority of people should be too preoccupied to pay much attention to what at first appeared an obscure conflict in distant Manchuria, but with the expansion of hostilities by the Japanese army to Jehol and Shanghai, there developed in many circles a growing disquiet at the revelation of the new dominance of the military party in Japan's policy. News of the bombings and destruction at Chapei elicited widespread sympathy for China and some outspoken condemna-

²² October 14, 1931.

²³ February 3, 1932.

tion of Japanese methods of "settling" the dispute. At the same time there was some appreciation that Japan already had certain interests in Manchuria and economic needs which in some way would have to be satisfied. As to the future of Sino-Japanese relations there was little concern evident, it being assumed that the solution, whether peaceful or violent, would be worked out in a sphere as remote from New Zealand's center of interests as the plains of Manchuria.

In fact, with the consolidation of Japanese control over Manchuria there were many in New Zealand who felt that Japan's most pressing problem—her need of access to raw materials for heavy industry—had been for the most part solved. Japan's increasing military budget, her disquieting activities in North China during 1933-5, and the resentment aroused in Japan by the British Government's introduction of tariff protection in the colonial Empire gave informed observers cause for anxiety. An editorial in the *Press*, while deploring the proportion of the Japanese budget devoted to armaments, considered that Japan still had serious and legitimate economic grievances which would have to be relieved:

She (Japan) has made herself an industrial power, cannot, if she would, retrace the way but finds herself in increasing danger of market starvation. It is fair in a narrow sense, for every nation to say that it has its own interests to look after and if they are menaced by Japanese competition Japan must abide the consequences of tariffs or embargoes or stiff quotas; but the validity of this proposition grows weaker and disappears as it is extended, and what takes its place is a threat to peace and security in the East and beyond. Either Japan's place in the economic world will be settled by concession and agreement or it will be contested by force, and probably determined in catastrophe.²⁴

No solution was proposed, however, beyond the hope that China might forego her resentment against Japan and "pursue her friendly policy to the ends of independence and security and of commercial advantage."

JAPAN'S "GOOD WILL" MISSIONS, 1935

It has already been pointed out that practical New Zealanders are inclined to form judgments from tangible evidence touching their daily lives. Hence the arrival during the middle months of 1935 of four different groups of Japanese visitors was important for New Zealand-Japanese relations, in that popular

²⁴ February 20, 1935.

interest was aroused and opinions and prejudices re-examined. In May, two Japanese cruisers engaged on a Pacific "good will" cruise touched in at the main New Zealand ports. The visit was the occasion for a cordial welcome and exchange of courtesies which received considerable publicity in the press and evoked a good deal of popular interest. This was followed soon afterwards by the visit of a private party of Japanese industrialists headed by Dr. Abe, assistant editor-in-chief of the Tokyo *Nichi Nichi*. Dr. Abe stressed the need for better mutual understanding between the two peoples—"cultural understanding particularly." He went on to suggest that the similarity of topography and climate between Japan and New Zealand offered an immediate bond of mutual interest.

Meanwhile during the winter months Dr. Toyohiko Kagawa, the Japanese Christian social worker, was engaged in a comprehensive lecture tour of the Dominion. In all he was reported to have given eighty-nine addresses covering a total of some 60,000 people. His lectures provoked widespread interest and gave many New Zealanders a new knowledge of social conditions and modern tendencies in Japan. In an interview at the end of his tour Dr. Kagawa commented briefly on conditions in New Zealand. He considered that there were too many unemployed in New Zealand at the time, and that New Zealand had lacked Australia's enterprise in solving such problems by active search for new markets in the Far East. He stressed the success of Mr. J. G. Latham's "good will" mission from Australia to Japan and suggested that it was time that New Zealand had a trade representative in Japan.

Finally in August Japan's official "good will" mission, headed by Mr. Katsuji Debuchi, arrived from Australia for a brief visit. At a State luncheon Mr. Debuchi said that he brought with him no "diplomatic knapsack bulging with conventions and agreements" but that he was simply engaged on a friendly visit from one good neighbor to another. Nevertheless, prospects of increasing trade between New Zealand and Japan were discussed. Mr. Debuchi referred to Japan's increasing demand for New Zealand and Australian wool during the previous few years and suggested that Japan's developing woolen textile industry would further expand that demand. He gracefully acknowledged that such an expanding market for the dominions would mean in-

creased competition from Japan as far as British manufacturers were concerned:

One may say that we are buying wool from the children of Britain and selling it in competition with their mother. . . . But there it is. [He further promised that] if you can supply good and tender meat at prices which our people can afford to pay you will find a large market for it in Japan before long.

It may be pointed out that this promise found little evidence to support it in previous New Zealand exports to Japan. It is worth noting, however, that the export of frozen meat increased from a few hundred cwt. in 1935 to over 8,000 cwt. in 1936 and 6,000 cwt. in 1937.²⁵

How far these visits engendered a more than temporary cordiality toward Japan in view of the latent antipathy lingering after the conquest of Manchuria it will be difficult to say. Certainly, however, they wanted to emphasize to many New Zealanders aspects of Japanese life which could not have been deduced from the behavior of the military party in China. The following comment bears witness to the underlying sense of distrust which was representative of perhaps majority New Zealand opinion toward the end of 1935:²⁶

The New Zealander regards with concern Japan's premeditated action in Manchuria—her unprovoked attack on Shanghai, her withdrawal from the League, her demand for equality in naval armaments and her denunciation of the Washington treaties. . . . He has a strong suspicion that she has fortified her mandated islands contrary to treaty undertakings; and he regards Japan's recent move in north China as part of a pre-arranged scheme to make herself mistress of China, to slam the Open Door and to brook no interference of Occidentals. . . . Despite the assurances of our Japanese visitors—a naval squadron, a trade delegation, and the great Christian reformer Dr. Kagawa, who has impressed us all with his wide knowledge and his practical outlook on our scientific, industrial, social and agricultural activities—that there is nothing to fear from Japan, whose intentions are strictly pacific, the New Zealander recalls Mr. Downie Stewart's warning at the Banff Conference of the Institute of Pacific Relations in 1933, that it looked as if we were approaching one of those crises in history at which the urge and pressure on a particular nation compelled a conflict. We may console ourselves with the reflection that Japan has bitten off as much or more than she can chew in Manchuria and China for some time to come; but Professor Toynbee in *Pacific Affairs* (March 1934) harrows us by his declaration that the drama which we are witnessing in the Pacific is not a tragedy in one act and the com-

²⁵ See p. 70.

²⁶ *Round Table*, September 1935, pp. 854-5.

pletion of the Japanese conquest of Manchuria the end of the play, but that it seems more probable that there are further acts to follow and to be played out to their conclusion on a larger stage. New Zealanders, then, desirous of increased friendship and trade with Japan but determined to persevere in their policy of a white and as far as possible a British New Zealand, have the question of the defence of that policy ever before them.

DEFENSE 1931-1935

The last three years of the Coalition Government's term of office saw the growth of rearmament and insecurity throughout the world, not least in the Pacific. In March 1933, Japan after having established in defiance of the League of Nations the state of "Manchukuo," announced its intention of resigning from the League. In October of the same year Germany had quit the Disarmament Conference and the League. Not only had the attempt to secure a lasting limitation of armaments failed but through its inability to restrain Japan's aggression in Manchuria the League had suffered a serious loss of prestige.

Japan's resignation from the League raised again the problem which had caused New Zealand and Australia so much anxiety at the Paris Peace Conference in 1919—the status of the mandated islands in the north Pacific. In November 1932, as a result of a Geneva newspaper article, Japan had been questioned at a meeting of the Permanent Mandates Commission concerning the alleged construction of the submarine base on the island of Saipan. This and later allegations were strongly denied by the Japanese Government, although it was admitted that considerable sums were being spent for improving harbor facilities on some of the islands. Japan's resignation from the League caused anxiety in some New Zealand and Australian circles lest the check exercised by the Permanent Mandates Commission over Japan's fulfillment of its non-fortification pledges in the mandated islands should now disappear. However, in 1934 Mr. Hirota on behalf of the Japanese Government assured the Australian Minister for External Affairs that his Government would respect the mandates clause of the Covenant and make reports to the League on the administration of the mandated islands as before. In December 1934, there came a fresh shock to the security system in the Pacific when the Japanese Government gave the necessary two years' notice of its intention to withdraw from the Washington naval treaty, and in January 1936 the Japanese delegation, unable to find support for their demands for quanti-

tative restriction of naval armaments, left the London Naval Conference which had convened at the end of 1935.

This trend of events undoubtedly had considerable effect on subsequent British policy of hastening the completion of the Singapore base and its defenses. But until 1935 there was little in New Zealand's defense policy which indicated any alarm over the threatened upset to the balance of naval strengths in the Pacific. From 1930-4 defense appropriations were considerably reduced in keeping with the general policy of deflation. Expenditure on naval expense which had reached over £700,000 in 1927-8, fell to approximately £500,000 in 1931-2, rising gradually to £568,454 in 1934-5.²⁷ It is important to note, however, that despite strong opposition from labor and pacifist groups the annual £100,000 contribution to the Singapore base was maintained throughout the depression years.

As far as the land forces are concerned there was little during these years to indicate any basic changes of policy. The main change was the suspension, partly as an economy measure and partly on account of increasing unpopularity, of the compulsory military training system on October 1, 1930. From then on service in the Territorial Force was voluntary on a three-year basis. By March 31, 1935, the actual effective strength of the Territorial Force was 772 officers, 8,506 other ranks, and 892 bandsmen. The Permanent Forces (corresponding to the Regular Army of Great Britain) in 1935 numbered only 92 officers, 11 staff cadets and 421 other ranks.

For 1934-5, however, the total defense appropriation was increased from some £260,000 in 1933-4 to over £450,000. In justifying the increases the Minister of Defence, Mr. J. G. Cobbe, struck a note of warning which reflected a growing if vague sense of insecurity in a world where pacts and treaties were being freely violated:

New Zealand is a choice morsel and no doubt is regarded with hungry eyes by envious nations.

He went on to stress the importance of improving the Dominion's coastal defenses, in particular the installation of anti-aircraft guns and heavy land guns of 20,000 yard range instead of the existing type having 12,000 yard range. Of significance, too, was the announcement to increase the appropriation for the

²⁷ All data in this section are from *The New Zealand Official Yearbook*, 1936.

Air Force from less than £60,000 in 1934 to £132,320. Even in 1935 the Air Force, not organized yet as an independent service, was still very much in embryo.²⁸ It consisted of a small permanent force of ten officers and 101 other ranks, and the Territorial Air Force with some 85 officers organized as a Wing of four squadrons. Its total strength at this time was made up of eight Vickers Vildebeest torpedo bombers, seven fighters, six De Havilland Moth planes and miscellaneous training machines. In his speech on the 1935 defense estimates the Minister stressed the Government's recognition of the growing importance of the air corps and promised that increasing attention would be paid to its improvement.

²⁸ The Air Force was reorganized as an independent service on April 1, 1937.

CHAPTER III

ECONOMIC RELATIONS, 1936-1939

LABOR GOVERNMENT'S POLICY, 1936-1938

1935 saw a far-reaching change in New Zealand's social life. At the general election of November 27, the Labor Party was voted into office for the first time. Its election program, instead of being framed, as was usual, in general terms, consisted of specific reforms directed toward expanding the State's responsibility for the maintenance of adequate material and cultural living standards for all citizens. The following is a summary of the program:

- (1) Assume control of the central credit system.
- (2) Guarantee prices to farmers.
- (3) Restore cuts in wages.
- (4) Legislate a minimum wage.
- (5) Reorganize the system of education.
- (6) Institute a national health insurance service.
- (7) Provide a superannuation and pension system for all.
- (8) Maintain the public service superannuation systems.
- (9) Organize protective development through public works and local authorities and by fostering secondary industries.
- (10) Restore the State Advances Department.
- (11) Support the Covenant of the League of Nations.¹

It is not possible here to examine the details of the Government's extensive recovery legislation.² What concerns this study is the effect of the Government's policies on New Zealand's relations with Far Eastern countries. In external economic policy, the Labor Government's program, like the very different recovery plan carried out by its predecessor in office, was made with

¹ Quoted by D. R. Jenkins, "Policy and Strategy of the New Zealand Labor Party," *Pacific Affairs*, March 1939.

² See David Wilson, *History in the Making* (Pamphlet), Wellington, 1937; and James Thorn, *New Zealand's Labor Government* (Pamphlet), Wellington, 1937.

the British market as a primary point of reference, but many of the fundamental domestic reforms had repercussions directly affecting New Zealand's trade with the Far East.

The basic objective of the Labor Party program has remained for some years "socialization of the means of production, distribution and exchange." During the 1936 conference of the Labor Party, the Minister of Finance and Marketing, Mr. Walter Nash, declared that New Zealand Labor aimed at "social ownership of natural resources—social control of the methods of utilizing these resources" for the purpose of making New Zealand "the first effectively socialistically-controlled country in the world." Although there has been considerable dispute as to the degree of "socialism" realized by the Labor Government, its four years of office have seen growing extension of State control over many fields of New Zealand's social and economic life. Such extension of State responsibility was declared necessary to carry out the general improvement in the standard of living which was the basis of the Government's policy. Thus the conversion of the Reserve Bank into a completely State-owned institution and the new functions conferred on the State Advances Corporation were steps toward the promised utilization of public credit for the purpose of fully developing the available productive resources of the country.

The change in the status of the Reserve Bank was thus explained by the Minister of Finance:

The Reserve Bank now has full power to buy and sell Government securities, to underwrite Government loans and to advance to the Government moneys on over-draft for the purchase and marketing of any New Zealand product. The Bank is directed to control all foreign exchange funds resulting from New Zealand's exports and also the transfer of overseas funds to and from New Zealand. Power is also given to prevent if necessary the automatic convertibility of Reserve Bank notes into sterling.

Parallel with this assumption of partial control of the credit structure was the conversion of the semi-private Mortgage Corporation into a State Advances Corporation, under complete State ownership and control. The Corporation is empowered *inter alia* to grant mortgage loans at reasonable rates, extend loans to industry and to administer the State housing program, being granted in 1936 a credit of £5 million, to be issued by the Reserve Bank for this purpose.

In addition to these measures, the Government during its

first term of office, passed a long series of acts including, *inter alia*, increased relief payments to the unemployed, a large-scale public works scheme, full restoration of remaining wage and salary cuts, restoration of compulsory arbitration with basic wage awards through an Arbitration Court, a forty-hour working week in most industries, a Fair Rents Act, greatly increased civil and war pensions and a comprehensive social security plan covering old age, unemployment and general health insurance.

The primary effect of this legislation was to increase rapidly and substantially the purchasing power of the mass of the people. A few statistics will illustrate the extent to which standards of living were raised during 1936-8. Unemployment decreased from over 60,000 unemployed males in August 1935 to 54,000 a year later, to 16,500 in September 1937 and to 1,500 in September 1938.³ Real wage rates (1926-30 = 1,000) rose from 1,025 in 1935 to 1,100 in 1936, 1,122 in 1937 and to 1,137 in 1938. A good indication of the general increase in purchasing power is seen in the substantial increases in the amount spent on a category of imports listed in the New Zealand Official Year-book as "miscellaneous consumers' goods" (e.g., miscellaneous hardware, earthenware and china, glassware, fancy goods and toys, gramophones, radios, books, motorcars, and other semi-luxuries). In 1929 roughly £8 million of this class of "non-essential" commodities were imported. During the depression years the figure fell to between two and three million pounds. In 1935 it had risen to £6.1 million, in 1936 to £7.8 million and in 1937 to £10.2 million.

Rising export returns helped further to increase the purchasing power throughout New Zealand after 1935. The average price for greasy wool per lb. in 1935 was 7d., rising to 9¾d. in 1936, with a marked increase to 1s.3¾d. in 1937. Thus the value of total wool exports rose from some £7 million in 1935 to £13¼ million in 1936 and £19 million in 1937. Similarly, dairy production yielded greater total returns, the value of exports improving from £13.5 million in 1935 to £15.3 million in 1936 and reaching nearly £17 million in 1937.

The joint effect of Government policy and these increasing export returns gave rise to a general increase in imports from

³ Exclusive of 8,000 men on sustenance but totally unfit for employment (for health or other reasons) and of public works employees (who receive full rates of pay).

a total of £36.3 million in 1935 to £44.1 million in 1936, £56.2 million in 1937 and £55.4 million in 1938. The extent to which this general tendency was reflected in import trade from the Far East is examined in a later section.

TRADE POLICY, 1936-1938

The primary problem confronting the Government on taking office at the end of 1935 was the depressed condition of the farming industry. The dairy industry in particular was suffering from the indebtedness of most of the farmers, and from the effects of oversupply and depressed prices on the British market. Market returns had declined by 24 per cent between 1929 and 1936, despite a 65 per cent increase in production. It was estimated by a Royal Commission in 1935 that roughly one-half of the dairy farmers were unable to meet their commitments.

In order to give some security to the dairy farmer the Government introduced its policy of insulation against the fluctuations in the export price level through the machinery of the Primary Products Marketing Act, 1936. The Act

constitutes the government the sole purchaser of products intended for export, and the marketing of the produce as purchased is placed in the hands of the Primary Products Marketing Department set up for the purpose. . . .

The title to the Act declares that its purpose is "to make better provision for the marketing of dairy produce and other primary products so as to ensure for producers an adequate remuneration for the services rendered by them to the community." . . . Section 20 of the Act, in dealing with the dairy industry, provides that the price fixed for produce exported after July 31, 1937 "shall be such that any efficient producer engaged in the dairy industry under usual conditions and in normal circumstances should be assured of a sufficient net return from his business to enable him to maintain himself and his family in a reasonable state of comfort." The preamble states that since "it is not feasible to put into operation any plan or plans to deal effectively with all classes of products" the Act in the meantime will be limited to dairy and related products.⁴

The administrative details involved in carrying out the Act need not be examined here,⁵ but it is relevant to the study to note the difference in methods for determining the guaranteed prices for the first two seasons, 1936-7 and 1937-8. The first prices paid under the guaranteed-price system were based almost

⁴ *Contemporary New Zealand*, pp. 103-4.

⁵ See Primary Products Marketing Department *First Annual Report, 1937* and *Contemporary New Zealand*, pp. 104-6.

entirely on a calculation of average gross income received for the sale of the particular produce overseas, but for the next season the following regulation (Clause 20, Section 4, of the Act) applied:

In fixing prices under this Section in respect of dairy produce exported after the 31st day of July, 1937, regard shall be had to the prices fixed under this Section in respect of dairy produce exported before that date, and to the following additional considerations, namely:

- (a) The necessity in the public interest of maintaining the stability and efficiency of the dairy industry;
- (b) The costs involved in the efficient production of dairy produce;
- (c) The general standard of living of persons engaged in the dairy industry in comparison with the general standards of living throughout New Zealand;
- (d) The estimated cost to the Department of marketing the dairy produce concerned, and also the cost of the general administration of this Act;
- (e) Any other matters deemed to be relevant.⁶

The effect of this new criterion for fixing prices was seen in the increase in the guaranteed price for butter from 12 $\frac{9}{16}$ d. per lb. in 1936 to 13 $\frac{1}{4}$ d. per lb. in 1937, and for cheese from 6 $\frac{13}{16}$ d. per lb. in 1936 to 7.54d. per lb. in 1937, and, as a result of a surplus of some £928,000 over the 1937-8 season, £815,000 was paid out to farmers in the form of an increase of 0.41d. per lb. (butter) and 0.21d. per lb. (cheese) in the guaranteed price. During the 1938-9 season the guaranteed price for butter was raised to 14.89d. per lb. and for cheese to 8.42d. per lb.

The guaranteed-price policy has a definite relation to the increasingly important part played by the Far East in New Zealand's general trade. In the first place in so far as the dairy farmer has received a rising and more stable net income, he has been able to spend more on consumers' goods.⁷ It is these which constitute the greater part of New Zealand's imports from Far Eastern countries. Secondly, there is to be no restriction on output for the present. This means that the responsibility both

⁶ Quoted in *Contemporary New Zealand*, p. 105.

⁷ For an examination of the limitations on increasing farmers' real income through guaranteed prices, see H. Belshaw, "Guaranteed Prices for New Zealand Exports," *Economic Record*, Dec. 1937. Gross farming income has increased by 46 per cent between 1935 and 1938 while the index of farm expenditure has risen by approximately 30 per cent. (*Abstract of Statistics*, March and May 1939.)

for securing adequate markets and rationalizing marketing methods is placed now upon the Primary Products Marketing Department.

The difficulty of extending existing markets and *a fortiori* of finding new ones for New Zealand's food products was early confronted by the Government. Recognizing that the British market would have to remain New Zealand's chief outlet, certain proposals were submitted to the British Government with a view to expanding preferential trade between the two countries to a maximum. Briefly, these were:

(1) The United Kingdom, with minor qualifications, would be offered a full market in New Zealand for its manufactures and raw material equal in value to the balance of credits from sale of New Zealand products in the United Kingdom, after providing for:—

- (a) shipping charges,
- (b) invisible items,
- (c) debt services, and
- (d) a proportionate sum for the reduction of New Zealand's loans in the United Kingdom.

(2) If agreement could be reached, the United Kingdom, in certain cases, would be given the complete market in New Zealand for special manufactures of a type that were not produced in New Zealand. In special cases New Zealand would give preference to United Kingdom manufacturers or producers desiring to install and operate plants in New Zealand for the production of commodities at present imported.

(3) New Zealand's secondary industries to be extended, but not by reducing the total volume of United Kingdom export trade to New Zealand.⁸

Had the negotiations achieved what the New Zealand Government desired, the problem of marketing dairy and other primary products would have been largely solved, but apparently "the main difficulty in the negotiations was the reluctance of the United Kingdom to admit expanding quantities of primary produce."⁹ However, up to the end of 1937 at least, the British market mainly on account of the stimulus of rearmament offered more advantageous entry for New Zealand produce than the lack of complete success in the negotiations with the British Government seemed to indicate. New Zealand butter was entering the London market in increasing quantities and securing higher prices, partly by reason of the improved marketing system. Moreover, a threatened levy on mutton and lamb had been

⁸ Quoted in *Contemporary New Zealand*, pp. 125-6.

⁹ *Ibid.*, p. 126.

averted by the action of the New Zealand Government, and New Zealand's quota allocation for 1937 was the highest on record.¹⁰

Certain facts, however, did not give grounds for particular optimism regarding the long-term trend of the British market for New Zealand dairy and meat produce. Obvious adverse factors were the increasing protection for British agriculturists, especially through milk-marketing schemes, and the approach of a declining population in the United Kingdom. Offsetting these to some extent were such considerations as a recent increased consumption of imported butter in the United Kingdom largely resulting from lowered prices, and New Zealand's increasing share in the United Kingdom's butter imports. Significant too in this respect was the increasing attention aroused in Britain and other countries by new studies of the problem of nutrition. Sir John Boyd Orr's report, *Food Health and Income* (February 1936), laid particular emphasis on the inadequate diet of the lower income groups, especially regarding the lack of adequate butter, cheese and milk consumption. Thus it is felt in New Zealand that if the purchasing power of the British people were raised sufficiently to provide them with adequate consumption of these products, there would be a greatly expanded market for New Zealand's supplies of primary produce.¹¹

The problem, then, as the New Zealand Government has emphasized, is that of raising the standard of living to ensure an adequate diet for the consumers of every country. Could this objective be even partly attained in the Far Eastern countries, New Zealand's marketing problem for primary products would easily be solved. As has already been pointed out, such a condition is not likely to be achieved in the near future, but the higher the standard of living of the British people can be raised, the less New Zealand will be impelled to seek other markets, including the Far East, for its actual and potential pastoral production.

In the meantime, the Government has attempted to further its policy of reciprocal trade agreements, based on the principle that the foreign exchange resulting from sale of New Zealand's primary products is to be earmarked for the purchase of imports from that country entering into the agreement. An agreement

¹⁰ A 3 per cent reduction in the quota for New Zealand mutton and lamb was later authorized for 1939, leading to an estimated surplus of 25,000 tons for the season.

¹¹ For detailed discussion, see Sutch, *op. cit.*, Chapter 8.

was concluded along these lines with Germany in October 1937. Any concessions made under such agreements were extended also to China and Japan in accordance with "most-favored-nation" clause treatment.

FAR EASTERN MARKETS FOR NEW ZEALAND PRIMARY PRODUCTS

The hope, entertained strongly between 1925 and 1930, that the Far East would prove an increasing outlet for New Zealand's pastoral products was dimmed almost to extinction by the depression years, but revived somewhat with the opening in 1936 of a direct shipping service between New Zealand and Japan. In September 1935 the Osaka Shosen Kaisha announced its intention of commencing the service with three modern fast vessels, to call at New Zealand's four chief ports and make the return voyage via Manila, Hongkong and Shanghai, with a possible stop at Singapore. And in December 1935 the Yamashita Kisen Kaisha inaugurated a monthly direct freight service between Japan and New Zealand. Thus there was now an opportunity of direct trade contacts with other Far Eastern countries in addition to Japan. Freight rates were to be the same from New Zealand ports to Japan as from Australia, which meant a reduction of roughly $\frac{1}{8}$ d. per lb. on wool freights prevailing on the previous service via Australian ports. Moreover fresh incentive to trade with the Far East was given by the new practice of loading at the main ports of both North and South islands, thus avoiding the obstacle of heavy inter-coastal freight and handling charges.

The establishment of the new shipping service was followed by a considerable expansion of trade with Japan in particular, details of which will be examined later. The improved opportunities for reciprocal trade with the Far East raised once again the question of establishing more intimate commercial contacts with the East, primarily Japan. In 1936, former Prime Minister G. W. Forbes stated in the House of Representatives that he had understood that the inauguration of a direct shipping service to Japan was to be followed by a trade mission with a view to securing the full advantages of closer contact with the Far East. In reply the Minister of Industry and Commerce, Mr. D. G. Sullivan, said that the possibility of a trade commissioner was under discussion but that no decision had yet been made. As to a possible trade treaty "the Government did not

propose to negotiate any agreements or provide additional representation until the understanding with Britain had been brought to finality." The Minister's reply illustrates clearly the Government's attitude in general trade policy. Its primary objective was extension of New Zealand's share of the British market both in import and export trade, but if this could not be satisfactorily arranged, other markets or other methods of organizing New Zealand's economy would have to be found. In the words of the Prime Minister, Mr. M. J. Savage, in July 1936:

If British policy now precludes the sale of our exportable surplus products in the United Kingdom, at economical prices and in sufficient quantities to enable this Dominion to continue to progress, then obviously New Zealand is faced with the necessity of adopting one of two alternatives. Either we must develop our manufacturing industries and thus provide internally the expanding market that is necessary for the prosperity of our people, or we must attempt to find foreign markets for New Zealand's primary products.

If the first alternative is adopted, it means that New Zealand must make for itself a considerable proportion of the articles which at present we purchase from the United Kingdom. Naturally we would concentrate only on those industries best suited to our economy. We have no desire to set up uneconomic industries behind the shelter of a high tariff wall. Rather we would attempt to organize industry on a rationalized plan.¹²

As stated, the alternatives are posed as contrasting policies. Actually the Government has attempted to carry out simultaneously both the extension of foreign markets through trade agreements and the building up of domestic manufacturing industries. The basis for the latter policy was the Industrial Efficiency Act, passed in 1936, under which

power is given to a Bureau of Industry consisting of government servants and representatives of manufacture, farming and labor, all appointed by the Minister of Industry and Commerce, on the questions of the organization, capitalization, coordination, efficiency, and initiation of industries, the methods of accounting, the standardization and simplification of materials, the training of workers and the marketing and purchase of materials. At the request of the Minister, the Bureau is to prepare plans for industries and act as a licensing authority. An industry may be declared to be one for which a license has to be obtained in order to operate, while a plan may be enforced if approved by a majority of the principals engaged (or persons employing a majority of workers) in an industry. Industrial Committees may be set up to assist in carrying out any plan approved. Persons who feel aggrieved at not obtaining a license may appeal to the Minister.

¹² Quoted in *Contemporary New Zealand*, pp. 69-70.

Regulations may be made concerning the fixation of prices, discounts, and so on; the standardization and simplification of materials, the control of production by the fixing of quotas or otherwise and the control of marketing and distribution.¹³

The effect of these policies on Far Eastern trade prospects depended largely on the manner of their application. As far as trade agreements with Far Eastern countries went, New Zealand especially seemed to have shown that there were definitely limited opportunities for the expansion of exports, although the increasing sale of wool and some dairy products to Japan during 1936 and 1937 could not be overlooked.

If, however, the encouragement of secondary industries in New Zealand was to necessitate increasing production, then imported manufactures, particularly those from Japan, would have to suffer. Doubt as to the compatibility of the reciprocal trade program with the policy of developing domestic industries was expressed thus by one of New Zealand's foremost economists:

The New Zealand public is often told of the enormous potential market in the East. Even if this were true and the serious practical difficulties in exploiting this market overcome, the exchange of New Zealand butter for say Japanese pajamas or shirts would hardly commend itself to local manufacturers.¹⁴

The objective behind the Government's policy appears rather to have been the purposive selection of imports in the interests of raising the standard of living of the New Zealand people: "to produce those things for which New Zealand is most naturally suited and to export goods in order to import those articles which New Zealand needs and cannot produce or can produce only at great expense."¹⁵

Early in 1938, the Government decided that the development of domestic secondary industries and the building in New Zealand of a "more balanced economy" required further protective measures. On February 28, 1938, the Minister of Marketing and Customs, the Hon. W. Nash, declared in announcing increased duties on certain imported goods:¹⁶

There are large quantities of goods at present being imported into

¹³ *Contemporary New Zealand*, pp. 71-2.

¹⁴ H. Belshaw, in *Austral-Asiatic Bulletin*, February-March 1938, p. 14.

¹⁵ Sutch, *op. cit.*, p. 146.

¹⁶ The increased duties applied to imports from foreign countries, Australia and Canada, but not to those from the United Kingdom except in the special case of footwear.

New Zealand which could be satisfactorily manufactured within the Dominion. The proportion of such goods now being made here, even though in a number of cases the industries are very extensive ones, is not as large as it should be. The increased volume of imports has made it apparent to the Government that some further measure of protection is necessary if industries in New Zealand are to develop as it is felt they should do.

It should be pointed out that total imports for 1937 reached the record figure of £56.2 million. At the same time the increased importation of manufactured goods had not prevented an expansion of local industrial output, but if such development was to continue further a greater measure of protection was felt to be necessary.¹⁷

The new protective duties, however, did not appreciably affect the flow of imports from Far Eastern sources. The decline in Japanese imports during 1938 by comparison with those of 1937 seems to have resulted primarily from war-time restrictions on the textile and light manufacturing industries within Japan itself. The introduction of exchange control and regulation of imports by the New Zealand Government in December 1938, of course, opened a new phase in trade relations with the Far East as well as with other countries.

EXPORTS TO THE FAR EAST

Japan

The following table shows the trend of New Zealand's exports to Japan during these years:

<i>Year</i>	<i>Exports to Japan</i>	<i>Per Cent</i>		<i>Exports of Wool to Japan</i>	
		<i>New Zealand's</i>	<i>Total Exports</i>	<i>Value</i>	<i>Quantity</i>
1935.....	£ 432,495	0.93	£ 241,697	8.5 million lbs.	
1936.....	1,554,837	2.74	1,265,836	26.9 " "	
1937.....	3,131,986	4.71	2,705,946	38.2 " "	
1938.....	592,714		478,152		

The greatly increased importance of exports to Japan for 1936-7 is a new development in New Zealand trade. In 1937 Japan ranked next after the United Kingdom and the United States as New Zealand's best customer, the United Kingdom

¹⁷ "In recent years New Zealand factories have widened the range of their products to a remarkable extent, and the limits to possible further expansion are still far from being reached. The number of persons engaged in the 'true' manufacturing industries has increased from 29,445 in 1917 to 66,419 in 1937, an increase of 126% in the twenty-year period." *Contemporary New Zealand*, p. 69.

taking 76.3 per cent of New Zealand's total exports, the United States 7.2 per cent and Japan 4.1 per cent. The expansion of New Zealand's export trade with Japan resulted mainly from the greatly increased sales of wool over 1936-7, just as the sharp contraction in total exports for 1938 was due to the reduced Japanese demand for wool in that year. Explanation of these fluctuations must be sought partly in the effects on New Zealand of the Australian-Japanese "trade war" of 1936 and partly in the war-time restrictions and controls on Japanese industry following on the outbreak of hostilities with China in 1937.

When Australia initiated its "trade diversion" policy early in 1936, Japan retaliated by turning to other markets for its supply of raw wool in particular to South Africa, New Zealand and South America. New Zealand could not, of course, supply the fine-quality merino wool required for the manufacture of Japan's better-grade woollen textiles, but New Zealand's cross-bred wool had always been in demand on the Japanese market in relatively limited quantities, and was well suited for the production of a wide range of woollen textiles. The result of Japan's shift to other markets for her main raw wool imports in 1936 was a threefold increase in the quantity (fivefold in value) of New Zealand wool exports to Japan over that year. With the cessation of the "trade war" at the end of 1936, Japan did not immediately resume her former position in the Australian wool market. The Japanese Government encouraged a policy of market diversification in order that Japan should not again be exposed to possible hazards resulting from major dependence on one market alone for an essential raw material. In consequence, Japan continued to take a larger than normal proportion of wool from New Zealand in 1937. During the first half of the year, New Zealand supplied 15.2 per cent of Japan's total wool imports—an increase of 148.6 per cent over the corresponding period of 1936.¹⁸

To a considerable degree then, the development of New Zealand's total exports to Japan between 1936 and 1937 was due to the effects of Australian trade policy on Japan's demand for wool. It should be pointed out, however, that the abnormally large increase in the value of New Zealand wool exports to Japan in 1937 reflected the sharp rise in greasy wool prices from an average of 9¾d. per lb. in 1936 to 1s. 3¾d. per lb. in 1937.

¹⁸ *Japan-Manchoukuo Year Book, 1938*, p. 842.

Except as a recipient of unanticipated gains, New Zealand played no part in the trade war of 1936. Nevertheless, it was rumored in the Japanese press that Australia had invited New Zealand to join in a common economic front with a view to refusing exports of wool to Japan. The Prime Minister, Mr. Savage, on May 14 denied in the House of Representatives that any such proposals had been made, and stated that "Japan and other nations can rest assured that the New Zealand government will deal with them in a friendly and common sense way, and that trade relations with all countries will be discussed on their merits."

The 1937-8 wool season found several new factors operating to restrict severely the sale of New Zealand wool to Japan. In the first place, war-time restrictions in Japan on the import of raw materials, not primarily required for the armaments and allied industries, led to a heavy decline in total Japanese wool imports from nearly ¥300 million in 1937 to ¥94.4 million in 1938. Secondly, during 1937 and 1938, Japan gradually reverted to her former position of primary reliance on the Australian market for raw wool supplies. In 1938 she derived 68.7 per cent of her total wool imports from Australia as compared with only 39.7 per cent in 1937. Hence in November 1937, it had been announced on behalf of Japanese wool buyers in New Zealand that Japan would take 50,000 to 60,000 bales of New Zealand wool over the coming season, less than one-half the amount purchased in the 1936-7 season.

The Sino-Japanese war has thus had immediate repercussions on New Zealand's trade with Japan. To some extent, as in Australia, the greatly reduced demand for wool in the Japanese market has been offset by an increased demand in the British and European markets stimulated by the armaments program. At the same time the decline in wool prices over 1938, seriously affecting the total value of New Zealand exports, was due in considerable degree to the restricted demand for wool in Japan.¹⁹

The question arises here as to whether the war-time restrictions on Japanese wool imports are likely to be only those of an emergency situation. The rapid rise of the staple fiber industry to its present dimensions in Japan seems to indicate that the present practice of requiring the mixture of a percentage of

¹⁹ New Zealand's total wool exports in 1938 declined only 4 per cent in quantity, but 36 per cent in value, from those of 1937.

fiber in the manufacture of woollen cloth may with modifications become permanent in the Japanese woollen textile industry. Government regulations have now raised the proportion of staple fiber required to be used in woollen manufactures in Japan from the 20 per cent fixed in 1937 to 50 per cent in July 1938, and the output of staple fiber itself has increased spectacularly from some 13.6 million lbs. in 1935 to 174 million lbs. in 1937 and 168 million for the first six months of 1938. In the immediate future New Zealand like Australia must anticipate further reductions in the sale of wool to Japan and it may well be that the growth of the staple fiber industry will mean that Japan under normal conditions will be less dependent on imports of raw wool for her textile industries than ever before.²⁰

Exports to Japan other than wool also showed sharp increases between 1935 and 1937. The most important of these was casein, of which Japan imported some £142,000 in 1936 and £173,000 in 1937, out of total casein exports of £247,000. The quantity of dried and preserved milk exported to Japan in 1937 increased nearly fivefold over that of 1936. Of special interest in view of past hopes and uncertain conditions prevailing in the British market was the sudden expansion of butter and meat exports to Japan during 1937. In 1935 Japan had bought only 85 cwt. of butter, in 1936, 81 cwt., but in 1937 the figure rose to 4,374 cwt. (£24,928), the highest recorded in New Zealand butter exports to Japan.

Similarly, the export of frozen meats increased from some 600 cwt. in 1935 to over 8,700 cwt. in 1936 and 6,240 cwt. in 1937. Of course such amounts are insignificant in comparison with the main flow of over 5.1 million cwt. of meat exported to the United Kingdom for 1936, but it may be noted that the 1936 exports of meat to Japan were four times as great as those to any other country outside the United Kingdom. The significance of the increased sales of butter to Japan in 1937 may be better appreciated if one adds the fact that in the same year 4,125 cwt. was exported to China. Thus the two countries together took almost as much New Zealand butter as was sold to Germany under the 1937 trade agreement which was of considerable importance in New Zealand's trade program.

²⁰ E.g., "In so far as the large new industry has been effectively established and a great deal of capital invested in it, there is every likelihood that the loss of these (wool-producing) countries will be a permanent one." See "New Japanese Wool Control," in *Far Eastern Survey*, February 15, 1939, p. 47.

Since New Zealand with minor exceptions has no exportable supplies of raw materials essential for Japan's war industries, the direct effect of the war on New Zealand export trade has been, as in the case of wool, restrictive. Total exports to Japan for 1938 declined over sixfold between 1937 and 1938, the balance of trade turning in Japan's favor for the first time since 1935. However, the effect of Japan's increased rearmament and heavy industries drive in 1937 led to a significant increase in the export of scrap metal from New Zealand from less than £25,000 in 1936 to over £56,000 in 1937. In September and October 1937, Japan's increasing demand for scrap iron led to a series of strikes by the watersiders in New Zealand's main ports, the men refusing to load material which they claimed would be used to destroy Chinese lives. The Government intervened and as a result of a conference with representatives of the New Zealand Federation of Labor, the men agreed to load Japanese ships, while the Government on October 8 declared an embargo on the export of all scrap metal.

China

Total exports to China increased from £7,718 in 1935 to £32,854 in 1936 and then rose sharply to £82,068 in 1937. The chief items responsible for these increases were wool (which accounted for over one-half of the total exports for 1937) and butter of which 4,125 cwt. were exported in 1937 as compared with 1,405 cwt. in 1936. In 1938 the effect of the war reduced total exports to £34,597, butter exports declining to £21,879 and wool to £3,329.

British Malaya

Total exports to Malaya increased from some £62,000 in 1935 to over £75,000 in 1937, declining to some £64,000 in 1938. Important increases were shown in the sale of butter, exports increasing from 3,474 cwt. in 1935 to 5,239 cwt. in 1936 and 5,003 cwt. in 1938. Exports of dried and preserved milk also showed substantial increases in 1936 and 1937.

IMPORTS FROM THE FAR EAST, 1936-1938

Japan

The general rise in consumers' purchasing power and gross farming income in New Zealand after 1935 was reflected in a

considerable increase of imports from Japan. The following figures illustrate changes in total and main items imported:

<i>Year</i>	<i>Total Imports from Japan</i>	<i>Per Cent of New Zealand Total Imports</i>	<i>Imports of:</i>	
			<i>Silk and Art. Silk Piece Goods</i>	<i>Cotton, Linen, Canvas Piece Goods</i>
1935.....	£1,100,150	3.03	£396,450	£141,586
1936.....	1,328,195	3.01	416,005	268,834
1937.....	1,629,191	2.9	431,618	279,935
1938.....	1,208,185	—	308,307	206,335

Of significance in the above figures is the declining proportion of silk and rayon piece goods in Japan's exports to New Zealand. Before 1935 these made up generally one-half and more of the total imports from Japan. In 1936-7, their share had fallen to one-third or less. Meanwhile imports of cotton and linen piece goods had almost doubled between 1935 and 1937. It is clear that war-time restrictions imposed upon the Japanese textile industries had not taken effect on exports to New Zealand before the end of 1937. Thus, in addition to the increases in piece goods exports listed above, we find those of apparel increasing from some £64,000 in 1935 to £90,000 in 1936 and £114,000 in 1937. Imports of hosiery from Japan jumped from £3,200 in 1935, and £3,600 in 1936 to over £31,500 in 1937, although Japan's share of New Zealand's rapidly increasing total imports of hosiery remained small. Another item registering a significant increase in consumers' purchasing power was that of fancy goods and toys, imports increasing from some £45,000 in 1935 to nearly £63,000 in 1937.

The increasing volume of Japanese imports, especially in the year 1937, aggravated the problem of building up New Zealand's domestic industries. In particular Japanese hosiery, apparel, woolen textiles, miscellaneous hardware, and fancy goods competed with New Zealand's expanding output of similar commodities. Until the adoption of import selection through exchange control in December 1938, no positive steps were taken to restrict the influx of Japanese goods. The isolated tariff increases of early 1938 applied mainly to footwear of a kind not supplied in any quantity by Japan.

The decline of £400,000 in total Japanese imports in 1938 was not reflected in New Zealand's total import trade, which dropped by only £¾ million from the peak of £56.2 million of

1937. A certain amount of the diminution in Japanese imports was due to war-time restrictions on the production of light manufactured and consumers' goods in Japan, and a certain amount perhaps to the boycott sentiment aroused in New Zealand by Japan's actions in China.²¹ Significant reductions in imports of certain items during 1938 as compared with 1937 were silk and artificial silk piece goods, by nearly one-third; sulphur, by nearly one-half; hardware by one-half; oak timber by one-third.

China

Total imports from China rose sharply from less than £100,000, in 1935 to over £150,000 in 1936, declining slightly to £143,644 in 1937. In 1938 total imports despite war-time dislocations reached over £121,000, considerably higher than that of any year between 1930 and 1935.

Netherlands East Indies

Imports from the Netherlands Indies rose considerably in 1937, to the value of nearly £2¼ millions or 4 per cent of New Zealand's total imports. The bulk of these imports consisted of gasoline and sugar; the Netherlands Indies provided roughly two-thirds of New Zealand's supply of the former and five-sevenths of the latter.

British Malaya

The total imports from British Malaya rose from over £81,000 in 1935 to some £97,000 in 1937 and nearly £99,000 in 1938. The chief item showing an increase was coconut oil, imports of which increased by roughly one-third over the 1937 figure of £8,795. Of considerable importance in the potential expansion of trade with the Netherlands East Indies and Malaya was the inauguration by the Royal Packet Navigation Company (K.P.M. line) of a direct monthly shipping service between New Zealand and the East Indies in May 1937.

EXCHANGE CONTROL AND FAR EASTERN TRADE, 1938-1939

The general election of November 1938 returned the Labor Government to office for another three years with a greatly in-

²¹ Evidence of this was seen in the refusal of Chinese fruiterers and of the New Zealand Master Grocers' Federation to handle a shipment of 1,000 tons of Japanese onions imported to overcome a local shortage in July 1939.

creased majority over that of 1935. The Government's election appeal had asked for endorsement of its intention to continue with its program for raising the general standard of living throughout New Zealand, in particular by the inauguration of a comprehensive Social Security Act. But immediately on resuming office the Government was faced with a serious financial problem which overshadowed every other issue: the rapid depletion of New Zealand's sterling exchange funds in London. In November 1935 the total sterling funds held by the Reserve Bank and trading banks in London had amounted to £NZ34.6 million. By May 1938 the amount had fallen to £NZ28.1 million. From then on there was a rapid fall of some eighteen million pounds between May and the middle of November, so that by the end of the month there were only about eight million pounds of available credits for meeting interest payments on Government and local debt—amounting to some nine million pounds a year—and for the purchase of necessary New Zealand imports.²² In addition a Government loan of seventeen million pounds was due for payment in London at the beginning of 1940.

Faced with the rapid disappearance of sterling funds the Government on December 6, 1938 introduced exchange control through a system of import licenses and Reserve Bank control of all sterling funds. In explaining the Government's action before the Labor party conference in April 1939, Mr. Nash declared:

What was the choice before the Government? It was faced with the situation where sterling funds had been and were continuing to be severely depleted. What had the last Government done when faced with such a situation? It had depreciated the external value of the currency. It had curtailed expenditure, reduced wages and induced great unemployment. This had resulted in a less demand for goods and a building-up of overseas sterling funds because of the lower demand for imports. The Labor Government could have done this. They could have introduced a system of high tariffs on imports, thus raising prices to consumers, and placed embargoes on the importation of certain goods. A fourth policy was that of import selection whereby the Government would decide that the sterling funds available should be used for the most urgent needs: first, to pay our debts; secondly, to bring into this country the raw material and

²² For an analysis of the factors responsible for this depletion of sterling funds, see W. B. Sutch, "The Import Selection Policy," *New Zealand Financial Times*, May 1939, and *Economic Record*, centennial supplement, 1939.

equipment necessary for New Zealand industries; thirdly, to bring in necessary consumers' goods but to exclude goods which for a time we could go without or which New Zealand could produce.²³

He went on to emphasize that

The Government would not even consider the method adopted by the previous Government of cutting down the standards of living of the people, reducing wages and producing unemployment.

Instead it had decided upon exchange control and the selection of imports.

From the above considerations it is clear that the timing of the introduction of exchange control was forced upon the Government by the rapid depletion of sterling funds toward the end of 1938. In other respects exchange control is claimed as the logical development of the Government's long-declared plan for building a more "balanced economy" in New Zealand. In this respect the licensing of imports in New Zealand has a different motive than that prompting similar methods in Australia in 1936. The official reason at least for Australia's "trade diversion" was correction of the adverse trading position with certain countries—diverting trade from "bad" to "good" customers. The New Zealand Government, however, has adopted exchange control as the most appropriate method of providing for the expansion of secondary industries, as well as for the purpose of building up sterling funds. Increased protective duties such as were introduced in several instances early in 1938 were found to be quite inadequate for laying the basis of a "balanced economy."²⁴ Thus the real significance of exchange control in the Labor Government's long-term plan for New Zealand's development is lost if it is regarded merely as an emergency measure.

The immediate effect of exchange control has been to change the character of New Zealand's imports. The Government has made

²³ *Standard*, April 20, 1939.

²⁴ See the following comment made in 1936 concerning the Government's balanced economy program:

"It seems evident that the tariff—unless it is a prohibitive tariff—is not the appropriate method of meeting the problem. Quantitative regulation of imports, or straight out embargoes on the importation of certain classes of goods seems to be the device which could be chosen, not, as with most European countries, merely as a means of conserving foreign credits, but a definitely purposive method of developing the national economy."—Sutch, *Recent Economic Changes in New Zealand*, p. 142. For further evidence of this aspect of exchange control, see Sutch, "The Import Selection Policy."

it plain that exchange funds will be used for interest and debt payments first; secondly, for equipment and raw material needs of industry, and thirdly, for essential consumers' goods not easily produced in New Zealand, such as medical supplies and books.

The source as well as the character of New Zealand's import trade will be affected. New Zealand is to draw increasingly on the British market for supplies of raw materials and industrial equipment, as well as of "essential" finished goods. This policy of British preference is in keeping with New Zealand's proposals to the British Government in 1936-7 concerning possible mutual expansion of trade.²⁵

That exchange control will restrict New Zealand's Far Eastern trade temporarily is inevitable. Considering that only 25 per cent of New Zealand's total imports in 1938 were finished and consumers' goods and that the other 75 per cent consisted of raw materials, machinery and essential industrial products, it is clear that under the Government's plan the heaviest reduction in imports will be in the first-mentioned group. Since a large part of New Zealand's imports from the Far East are of this type, her Far Eastern trade will be sharply reduced once the restrictions are enforced. On the other hand, such "essential" items as gasoline and sugar from the Netherlands East Indies have not been restricted.

EFFECTS ON TRADE WITH JAPAN

In addition to their general character, two other factors will

²⁵ See pp. 61-2. British manufacturers, however, were not at all satisfied that exchange control and the announced increased preference for British exporters would work in their interest. Thus, for example, the following passages from a letter from the President of the Federation of British Industries to the Board of Trade: "While objection to the reasonable development of secondary industries is not raised, and this should occur in consonance with Ottawa, recent instances, particularly where the projects are sponsored by the Government, show that the policy is preference to local industries, even to the extent of the exclusion of United Kingdom manufactures. . . . If the fears are substantiated, the position will be a breach of the Ottawa pact, in which case the Federation will have no option but to press for Britain to abrogate Ottawa and substitute by negotiation an agreement in which the advantages of New Zealand on the British market shall be more commensurate with the treatment accorded United Kingdom exports."—(Quoted in the *Otago Daily Times*, December 17, 1938.)

Any changes in attitude consequent upon Mr. Nash's hand in negotiations in June-July 1939 are not yet clearly known.

determine the extent to which imports from Japan are restricted:

- (1) The rate and scope of industrial expansion in New Zealand, and
- (2) The availability of alternative sources of supply in the United Kingdom for textile tissues and essential manufactured goods now imported in some degree from Japan.

In 1937 Japan supplied New Zealand with over £700,000 of silk, rayon, cotton and linen fabrics. Under the import selection scheme whatever supplies of these are considered necessary will now be drawn primarily from the United Kingdom or other British countries, rather than from Japan. Even where Japan could supply textile materials at lower prices, the trade is being transferred to Britain if Britain can supply the goods needed. In the case of any goods imported from Japan which New Zealand can now produce, or will soon be able to produce under the industrial expansion plan, protective quotas will be applied. The extent to which such restrictions will operate depends on how far the development of manufacturing industries in New Zealand is carried. The Government has emphasized that there is no intention of setting up artificially protected "uneconomic" industries. Each proposal for the extension of an industry or the initiation of a new one is examined on its merits by the Bureau of Industry. Nevertheless, New Zealand's industrial development, given time, is likely to be far-reaching in scope. On December 13, 1938, the Minister for Industry and Commerce, Mr. D. G. Sullivan, announced that seventeen possible new industries had been listed for examination, and that there were thirty existing branches of industry which could be expanded within one year, and another forty that could be enlarged in periods ranging from one to five years.²⁶

Classes of finished goods previously imported from Japan that will be immediately affected by New Zealand's industrial expansion are apparel, hosiery, boots and shoes, hardware, fancy goods and woollen textiles. Especially in the case of the first three items,

²⁶ *Evening Post*, December 13, 1938.

New Zealand production has conspicuously expanded in recent years.²⁷

It is too early yet to say precisely how far Japanese imports will suffer from New Zealand's exchange control. Restrictions for the second half of 1939 are to be much more severe than for the first. This is due mainly to the anticipated expansion of New Zealand industry and its needs for raw materials, partly to the fall in export prices over the 1938-9 season, and partly to the adverse effect of dry weather on the volume of agricultural production. Moreover, since the loan of seventeen million pounds falling due for redemption in London on January 1, 1940, has to be repaid in full over the period 1940-5, it is essential for the Government to build up sterling funds.

The New Zealand Government has made it clear that in no way is the new policy one of discrimination against the goods of any country. However, in commenting on the new restrictions, the New Zealand manager of Mitsui and Co., Mr. K. Ikeda, declared that New Zealand's move might lead to some retaliatory action. He did not consider that any retaliation would be contemplated for restrictions imposed on Japanese manufactures capable of being produced within New Zealand, but he pointed out that a large proportion of imports from Japan were of materials used in New Zealand's secondary industries, textile fabrics in particular, and he urged that "discrimination" against such goods might seriously affect Japanese purchases of New Zealand wool.²⁸ On the other hand, it has been pointed out above that war-time controls within Japan during 1938 seriously curtailed New Zealand's volume of exports, giving Japan a "favorable" balance of trade of over £615,000. On analysis, prospects of increasing exports to Japan for 1939-40

²⁷ The volume of production index rose as follows:

(1925-26 to 1929-30 = 1,000)

Year	<i>Clothing Manufacture</i>	<i>Boots and Shoes</i>	<i>Hosiery</i>
1935-36.....	1,184	1,406	1,712
1936-37.....	1,426	1,590	2,016
1937-38.....	1,477	1,518	2,026

The total value of products of the "true" manufacturing industries (of which industries subject to competition from imports form a relatively large proportion) increased from £31.8 million in 1934-5, to £34.9 million in 1935-6 and to £41.7 million in 1936-7.—See *Contemporary New Zealand*, p. 269.

²⁸ *Otago Daily Times*, December 14, 1938.

are not promising.²⁹ On this point the Japanese Consul-General, Mr. K. Gunji, offered the following explanation:

It is only as an emergency measure that, last season, the Japanese Government limited its foreign imports. This was of course because of the "incident" in China. As soon as that trouble has been settled, however, Japan will resume normal trading and will as before be a heavy buyer from New Zealand. Japan's huge industrial activities must cause an ever increasing demand for raw materials, many of which, such as wool and casein, New Zealand can supply in large quantities.³⁰

Returns for the first six months of trade control in New Zealand showed only a small reduction in imports from Japan in comparison with figures for the same half of 1938. In 1938 the half-yearly total was £570,171; in 1939, £545,010, and over the six months' period New Zealand had an "unfavorable" trade balance of some £230,000.³¹ However, as has been pointed out, imports from Japan for the second half of 1939 will be much more severely reduced. Details of the restrictions for the first half of 1939 were not made public. On April 22, 1939 the Minister of Finance and Customs, Mr. W. Nash, explained the situation as follows:

In view of the difficulties that would have been created by such action it was felt unwise to publish details of the reductions applied to imports during the first half of this year. In response however to frequent requests which have been made by commercial organizations and in order that importers may be fully aware as to the position, the Government has decided to make details of the present measures available.

The "present measures" apply to imports over the second half of 1939. Restrictions, varying from 15-100 per cent, cover a wide range of goods, the percentage reduction varying in many cases according to origin of imports. Considerable preference is given

²⁹ See p. 69.

³⁰ *Otago Daily Times*, December 14, 1938.

³¹ Despite the import restrictions imposed after December 1938, certain lines of Japanese imports showed increases for the first six months of 1939 as compared with the same period in 1938. The following figures show what little effect the first restrictions had on imports from Japan.

IMPORTS FROM JAPAN FOR SIX MONTHS ENDING JUNE 10

Item	1939	1938
Cotton, canvas, linen piece goods... £(N.Z.)	119,621	113,961
Hosiery.....	30,968	12,814
Silk and artificial silk piece goods...	133,843	137,656
Apparel.....	29,554	47,791
Earthenware and chinaware.....	14,462	14,696
Footwear.....	13,078	17,317
Sulphur.....	15,399	49,479

to goods from the United Kingdom and to a lesser extent to those from other British countries. In addition to the list of reduced items there are about 350 items and sub-items on the customs tariff to which no restrictions are to be applied beyond limitation to the level of imports during the corresponding figures of 1938.

The following table shows the incidence of import restrictions for the second half of 1939 on items normally imported in some quantity from the Far East, primarily from Japan. It will be noted that in nearly every case there is complete prohibition on imports from foreign countries, so that imports from the Far East (except those from British Malaya and Hongkong) will be severely reduced:

<i>Item of Import</i>	<i>Percentages of Reduction:</i>		
	<i>United Kingdom, Crown Colonies, etc.</i>	<i>Other British Countries</i>	<i>Foreign Countries</i>
Apparel.....	100	100	100
Hosiery (children's).....	Nil	100	100
Hats and caps.....	100	100	100
Lace, laces and ribbon.....	40	100	100
Textile piece goods (cotton, linen, silk, artificial silk).....	Nil	5	55
Woolen textiles.....	33 $\frac{1}{8}$	100	100
Boots and shoes (canvas).....	Nil	25	100
Boots and shoes, n. e. i.*.....	100		
Gumboots, etc.....	Nil	50	100
Rubber articles.....	Nil	60	100
Chinaware, for table use, etc....	Nil	100	100
Chinaware, n. e. i.*.....	50	80	100
Cigarette tubes and papers, etc...	Nil	50	100
Toilet preparations, etc.....	50	75	80
Miscellaneous hardware.....	50	75	75

* n. e. i.—not elsewhere included.

It should be noted that the above reductions are in no sense permanent. Mr. Nash emphasized in his statement that:

Necessarily the whole position will require to be reviewed later in the year, and it is hoped that considerable relaxation will be possible in respect of next year's imports.

CHAPTER IV

THE SINO-JAPANESE CONFLICT, 1937-1939

THE LABOR GOVERNMENT'S FOREIGN POLICY: INTRODUCTORY

When hostilities broke out in North China in July 1937, the New Zealand Government was absorbed in carrying out the second year of its legislative program. However, preoccupation with domestic affairs and important trade negotiations with the British Government did not prevent New Zealand's taking an active interest in this new threat to peace in the Pacific. Unlike its predecessor of 1931-5 the Labor Government had early formulated for New Zealand a definite and comprehensive foreign policy which had been applied already to international crises under consideration at Geneva. The basis of this policy was a firm allegiance to the principles of the Covenant of the League of Nations. It was fully set out in the memorandum submitted by the Government to the Secretary-General of the League in 1936. The following selection of its twenty-one points will explain the fundamentals of the policy:

- (1) We believe in the first place that there is no material fault in the existing provisions of the Covenant and that the difficulties that have arisen, and that may arise in the future, are due to the method and the extent of its operation.
- (2) We believe that the Covenant has never yet been fully applied and that it cannot be characterized as an ineffective instrument until it has been so applied.
- (3) We are prepared to reaffirm with the utmost solemnity our continued acceptance of the Covenant as it stands.
- (4) We believe, nevertheless, that the Covenant is capable of amendment, which should take the form of strengthening rather than weakening its provisions.
- (5) We are prepared to accept, in principle, the provisions proposed for the Geneva Protocol of 1924 as one method of strengthening the Covenant as it exists.
- (6) We are prepared to take our collective share in the application against any future aggressor, of the full economic sanctions contemplated by Article 16, and we are prepared, to the extent of our power, to join in the collective application of force against any future aggressor.

- (7) We believe that the sanctions contemplated by the present Covenant will be ineffective in the future as they have been in the past—
 - (a) Unless they are made immediate and automatic;
 - (b) Unless economic sanctions take the form of the complete boycott contemplated by Article 16;
 - (c) Unless any sanctions that may be applied are supported by the certainty that the Members of the League applying the sanctions are able and, if necessary, prepared to use force against force.
- (8) It is our belief that the Covenant as it is, or in a strengthened form, would in itself be sufficient to prevent war if the world realised that the nations undertaking to apply the Covenant actually would do so in fact.
- (9) We are prepared to agree to the institution of an international force under the control of the League or to the allocation to the League of a definite proportion of the armed forces of its Members to the extent, if desired, of the whole of those forces—land, sea and air.
- (14) We believe it improper to enforce a system of preventing war without at the same time setting up adequate machinery for the ventilation and, if possible, rectification of international grievances, and we would support the establishment of an acceptable tribunal for that purpose.
- (18) We should wish also to see all the nations of the world, whether Members of the League or not, invited to take part in the consideration of the terms and the application of the Covenant, or of any other universal method of collective security that may be proposed in its stead.
- (19) We realise the important effect of economic conditions on the peace of the world and we should wish, also that a worldwide survey of such conditions should be undertaken at the same time.¹

Before considering the Government's action in respect to the Sino-Japanese conflict, some explanation should be given of the emergence of a more determined and independent attitude in foreign affairs after 1935. Traditionally, as we have seen, New Zealand governments had been content to follow faithfully the steps of the British Government in nearly every foreign problem. The Labor Government, however, found itself advocating at Geneva a policy which contrasted more and more markedly with that of Great Britain. This divergence of attitude was seen most clearly over abandoning sanctions against Italy in 1936, over the British proposal for recognition of the Italian conquest of Ethiopia, repeatedly in connection with British non-intervention applied to the Spanish conflict, and finally over possible action to restrain Japan in the Sino-Japanese outbreak.²

¹ For entire memorandum, see *Contemporary New Zealand*, pp. 196-9.

² For full discussion, see *Contemporary New Zealand*, Chapter 12. See below, p. 92, footnote 12.

The real grounds for this difference of views appeared to have been the New Zealand Government's conviction that not only world peace but also the security of the British Commonwealth itself was primarily dependent on the maintenance of the League system against the threat of any aggressor. Recent British policy on the other hand seemed in the eyes of many in New Zealand to have given little more than lip service to League principles and at times to have actually thwarted the potential effectiveness of League methods. Thus the Hoare-Laval agreement and the resulting surrender of Ethiopia to Italian aggression alienated labor and liberal opinion in New Zealand because of its damaging effect on the League's prestige and the consequent encouragement to further acts of aggression. The tortuous course of British "non-intervention" in Spain subsequently raised further doubts in New Zealand as to the real basis of British foreign policy at this time. As the Italian and German invasion of Spain became more and more naked, it was felt that not only were the legal rights of the Spanish Government being violated, but the cause of democracy sacrificed to appease the Fascist powers. Nor was there any cause for satisfaction in Italian and German occupation of such strategic points as the Balearic Islands, Ceuta, Melilla and the Canary Islands, since it clearly imperiled vital imperial communications through the Mediterranean.

Officially New Zealand's reaction to the spread of aggression in Europe was reaffirmation of its faith in collective security.³ At the Imperial Conference in 1937 the Prime Minister, Mr. M. J. Savage, stated with considerable emphasis New Zealand's conviction that the security of the Commonwealth depended

³ But there has been considerable opposition in conservative circles in New Zealand to the position taken by Mr. Jordan at Geneva. The following brief excerpts from a series of editorials in the *Dominion* illustrate the traditional workings of the imperial sentiment:

"... We have had the spectacle of Mr. Jordan, in a period of acute international tension, publicly dissenting from British policy—'keeping company with the Russian delegates,' as the leader of the Opposition expressed it. . . . Our Socialist Government persists in clinging to the wreckage of the League of Nations. It is no fault of the British Government, or of the Dominion Governments, that the League has been rendered impotent. . . . In this gravely critical matter the New Zealand Socialist Government is completely out of touch with public opinion. It is off-side with the Mother Country, which is trying to keep us out of war, and which, if war should come, will be called upon to protect us and our overseas shipping upon which our economic life depends. In times like the present our foreign policy should be the foreign policy of a united Empire."

primarily on the frank adoption by the British Government of a foreign policy based on the Covenant of the League. It was reported both in the Canadian and European press that

the New Zealand Prime Minister severely criticized the British Government for its alleged insincerity towards the League, declaring that although they had complained consistently about the League's weakness, they had no one to blame for this but themselves—in fact it was Britain who had taken the lead in weakening the League on almost every occasion upon which it was weakened—from Locarno to Spanish “non-Intervention.” It was reported further that the New Zealand representative stressed the fact that New Zealand was a small country, her distance from England and her limited defence resources making the policy of collective security an absolute necessity for her.⁴

A further factor making for a more independent outlook in foreign affairs has been the recent economic changes initiated by the Labor Government. New Zealand continues, of course, to be primarily dependent on the British market. However, the following comment made in 1938 is indicative of the desire to lessen this degree of dependence:

It is true also that New Zealand is still largely dependent on the United Kingdom for her export market but the application of quotas and the threat of import levies have impressed upon New Zealanders the necessity both of diversifying their own economy and of seeking new markets elsewhere. Although up to the last depression New Zealand was well content to lean heavily on the United Kingdom for financial accommodation there is today a general desire that henceforth she should be self-reliant in the matter of loan requirements. This desire is determined partly by sound economic reasons and partly by fear of financial domination from London.⁵

Closely related to the economic factor is the emergence recently of a certain national pride resulting from three years of the Labor Government's social reforms. There is a growing feeling that within a small orbit New Zealand has at last begun to make a positive contribution to present-day civilization and is entitled to stand on its feet among the nations of the world. Evidence of this sentiment was revealed in New Zealand's views concerning the problem of world peace and stability discussed at the 1937 Imperial Conference. On his return the Prime Minister reported in the House of Representatives that New Zealand had wanted to “lay an economic foundation” for the preserva-

⁴ *Contemporary New Zealand*, p. 180.

⁵ *Contemporary New Zealand*, p. 178.

tion of peace. He had urged that the delegates go on record that "they believed an increased standard of life for the people of all nations is essential to the revival of confidence." The New Zealand proposal was not, however, accepted. In Mr. Savage's words,

The conference ultimately decided that the raising of the standard of living was a desirable thing, but the delegates would not agree to say that they believed an increased standard of life for the people was essential for the restoration of stability. . . . We thought that we ought to begin with first things first, but still we could not make progress on this subject.⁶

This growing feeling of independence has had further stimulus from the rapid growth of communications—ocean, air and radio—which in the last decade has so greatly undermined the former stultifying sense of Antipodean remoteness from the centers of world momentum. There has developed a more widespread and concentrated interest in European developments, a new appreciation of the importance of the United States in the Pacific and world relations, and a growing understanding of the more responsible role which Australia and New Zealand now have to play in the Pacific. The following editorial comment indicates something of this change in outlook:

Thus the balance of power in the Pacific today is unstable. Both Britain and America have temporarily at least receded from the former position in China. Britain has had her hands full in Europe without incurring additional trouble simultaneously in the Far East. The attitude of the United States can only be explained by that nation's traditional desire to avoid foreign entanglements. It is doubtful whether either attitude is anything but temporary. The United States is taking energetic steps to strengthen her defences in the Pacific and little is heard today of any withdrawal from the Philippines. Similarly, Britain is vigilantly studying the situation in the Far East with a view to meeting emergencies should they arise. It is unlikely that the future of the Pacific, crossed now by aircraft as well as by ocean liner, will be surrendered to the supremacy of any one Power, with others there by sufferance. Nor is it likely that the great nation of China will consent to become the vassal of any other nation. In the future of the Pacific the British Dominions of the South are likely to play an increasingly important part. Already they are coming into the network of air communications which is banishing isolation from so many other remote regions of the globe. But the part Australia and New Zealand will play must depend greatly on themselves, on the vigor of their peoples, and the courage and enterprise with which they are prepared to face responsibilities in which the Motherland will not be able

⁶ *New Zealand Parliamentary Debates*, September 29, 1937, Vol. 248, pp. 473-6.

to help them so much as in the past. Only in that sense can they make their own future in the Pacific.⁷

GOVERNMENT POLICY AND THE FAR EASTERN CONFLICT

Confronted with the outbreak of war in July 1937 the Government, through its representative at Geneva, Mr. W. J. Jordan, early expressed its conviction that vigorous application of the Covenant was necessary to safeguard peace in the Far East. At the same time the Government faced the fact that collective security at this time did not meet with the approval of the major powers at Geneva. Accordingly, while New Zealand's representative on the League Council was urging positive League action to restrain Japan as a violator of the Kellogg-Briand Pact and the Nine-Power Treaty, the Minister of Finance in New Zealand, Mr. W. Nash, was telling the House of Representatives (September 1937):

The Government is of the opinion that there can be no permanent peace between the nations other than through a body to which all of the nations are pledged and bound to act in accord with principles of agreement, law, and order. But until the League of Nations becomes effective the Government . . . must take steps to defend the Dominion.

The details of New Zealand's defense policy and the extent to which the Government has co-operated in the Imperial defense scheme are discussed in more detail elsewhere. Here it should be pointed out that the decision to co-operate fully in the Imperial defense plans was made before the outbreak of present hostilities in China. Nevertheless the potential menace to New Zealand interests prompting such action by the Government was clearly that of Japanese expansion. Subsequent events undoubtedly strengthened the Government's belief that co-operation in Imperial defense based on Singapore was essential for New Zealand's ultimate security, though as its policy at Geneva shows, it in no way abandoned its conviction that collective action through the League is the only effective method of ensuring peace. This basic conviction determined the Government's attitude toward the suggestion advanced by the Prime Minister of Australia in 1937 for a regional Pacific pact. New Zealand's view has been summed up as follows:

As far as is known, New Zealand expressed no opinion officially upon the suggestion of a Pacific Pact made by Australia at the outset of the last

⁷ *Evening Post*, Wellington, March 4, 1939.

Imperial Conference. It is known, however, that a definite prejudice exists against regional agreements mainly because of the fear that such agreements might degenerate into alliances of the old type. At the same time it is recognized that the Washington Pact succeeded for 15 years in keeping peace in the Pacific. New Zealand would probably adhere, therefore, to any scheme which offered a reasonable prospect of maintaining peace provided it had a basis of collective security with perhaps regional responsibility for the application of military sanctions.⁸

The first occasion at which New Zealand was able to express its official attitude on the Far Eastern conflict came at Geneva following China's appeal to the League on September 12, 1937. The question was referred from the League Council to the Advisory Committee on Far Eastern Affairs and from this to a sub-committee of which the New Zealand representative was a member. This sub-committee submitted two reports to the Advisory Committee, communicated to the Assembly on October 5. The major opportunities for expression of policy came during the drafting of the reports in the sub-committee sessions. It is reliably reported that the New Zealand representative pleaded for a strong stand against Japan "and urged a more positively worded statement" calling on members to consider action to stop Japanese aggression. Canada and Russia supported his motion but it was lost on account of opposition from Britain, France, Australia and Holland.⁹ Apparently New Zealand's attitude was that the obvious preference of the British and French Governments in particular for "further efforts . . . to secure the restoration of peace by agreement" would merely delay positive action to restore peace and further diminish the League's prestige and capacities.

As a result of the Advisory Committee's recommendation to the Assembly, the Nine-Power Conference convened in Brussels in November 1937. Although the previous Geneva discussions had given little reason to expect positive action along the lines demanded by New Zealand, some hopes were entertained in New Zealand that Brussels would see a greater degree of Anglo-American co-operation in regard to the crisis than had been realized during 1931-3. Increasingly in New Zealand it was recognized that co-operation with America was essential for any positive restraint of Japan in the present conflict and for the future security of Pacific peoples. The following editorial com-

⁸ *Contemporary New Zealand*, p. 226.

⁹ *Dominion*, October 7, 1937.

ment in one of New Zealand's best-informed daily papers expresses the significance attached by New Zealanders to mutual British-American understanding:

To the Pacific Dominions it has always seemed that Imperial policy in the Pacific should be based on the cardinal need for free cooperation with the United States. . . . To put the matter plainly, the attitude of the British Empire should not be such as to discourage the United States from assuming wider responsibilities in the Pacific.¹⁰

Hence, New Zealand opinion greatly welcomed the declaration of Mr. Eden just prior to the Brussels Conference that he would journey from Melbourne to Alaska if he could thereby secure American co-operation in the field of foreign affairs. The Brussels Conference, however, was disillusioning in the extreme for those who had anticipated closer Anglo-American co-operation in the face of a threat to largely common interests. On behalf of the American Government, Mr. Norman Davis declared his willingness to back up the initiative which any of the powers should choose to take, but neither Britain nor France showed any willingness to give a lead. Mr. Jordan, as New Zealand's representative, pleaded strongly for firm measures against Japan but in view of the negative attitude of the major powers the ultimate resolution went little beyond that adopted by the Assembly on October 6.

The chronicle of New Zealand's official policy during the subsequent course of hostilities is necessarily brief as far as the record at Geneva goes. New Zealand's delegate to the League Council took an active part in the sessions of January, February, May, and September 1938 and again in January 1939. Whenever the Sino-Japanese conflict was under discussion he continued strongly to support the appeal of the Chinese delegation for positive League action to restrain the aggressor. At the session of September 1938 when China made a new appeal for sanctions through invocation of Article 17 of the Covenant, New Zealand declared itself in favor of the full application of sanctions once the Council decided that Japan's refusal to treat with the League had duly exposed her to the coercive measures of Article 16. However, a few days prior to the Council's decision that Article 16 was legally operative against Japan (though not by "majority sentiment" immediately practicable) the British representative, Mr. R. A. Butler, made proposals to render both economic and

¹⁰ *Press*, January 6, 1937.

military sanctions under Article 16 merely "optional." The New Zealand delegate declared himself in opposition to the British *démarche*, insisting that the League at this time needed no reforms which would in any way detract from the effectiveness of its sanctions machinery as a deterrent to aggression.

At the January 1939 League Council session New Zealand urged again for definite action under Article 16 along the lines proposed in the Chinese delegation's declaration at the Council of January 17. But the obvious unwillingness of Britain and France to initiate restraining measures against Japan resulted in the adoption of a resolution little stronger in tone than similar ones passed at the two previous Council meetings. There was, however, in view of some New Zealand opinion, one encouraging passage in the resolution adopted on January 20:

The Council invited Members of the League of Nations, particularly those directly interested in the Far East to examine if necessary in consultation with other interested powers the proposals expressed by the Chinese delegate . . . for the adoption of certain effective measures for helping China.

The implication of the above clearly pointed to the desirability of securing American co-operation in any attempt to undertake measures in restraint of Japan.

Enough has been said to indicate the opposition of the New Zealand Government at Geneva to British reluctance to make a firm stand against the expanding course of Japanese aggression. The British grant of a £500,000 credit to China in December 1938, followed by the stronger note to Japan of January 14, 1939, and the currency stabilization loan of £5,000,000, were treated as possible preludes to a more positive policy in aid of China. But the ineffectiveness of such steps in themselves was shown by Japan's renewed southward drive leading to the occupation of Hainan, the Spratly Islands, by the Kulangsu and Tientsin incidents.

The commencement of the Japanese blockade of the British Concession at Tientsin in mid-June brought Anglo-Japanese tension to a breaking-point. The possibility of economic measures to restrain Japan was reported to have been discussed in London at meetings between Foreign Office officials and the Dominions High Commissioners. Whatever attitude the New Zealand Government decided to adopt was not made public.

Some indication, however, of the Government's viewpoint may be found in its response to the indignities suffered at the hands of the Japanese by Mr. Cecil Davis, honorary agent of the New Zealand Government in Tientsin. In reply to various inquiries, the Prime Minister on June 26 declared that New Zealand would take "no independent action by way of protest to Japan." He explained that "although a protest from Japan might be well received within the Dominion, if published here it might easily cause unwelcome complications." Mr. Savage intimated further that since New Zealand was a unit of the British Commonwealth the British Foreign Office would automatically deal with the situation, though the Dominion had not asked that a protest should be made through the Foreign Office.¹¹ The Government's evident wish, on this occasion, to fit in with the course of British policy reflected the growing tendency since the Pacific defense conference of April 1939 toward fuller co-operation between New Zealand and Great Britain both in the organization of local and Pacific defense and in the general field of foreign policy.

The announcement on July 24 of the "Tokyo agreement" between the British Ambassador, Sir Robert Craigie, and the Japanese Foreign Minister, Mr. Arita, proved a new test for the capacities of imperial co-operation. In a speech made early in August Mr. Chamberlain referred to the difficulties in the way of positive action by the British Government in the Far East on account of the need for consulting the Pacific Dominions' interests. And it was more than hinted that Australia in particular was opposed to any attempt to impose restraint upon Japan. The New Zealand Government, however, apparently had little opportunity of influencing the course of British policy leading to the Tokyo agreement. Questioned in the House of Representatives on July 25 as to whether New Zealand had been consulted prior to the concluding of the agreement, the Prime Minister replied that:

The Government has been aware of the negotiations that have been in progress between representatives of Great Britain and Japan in connection with the situation in the East; but we were not aware of the actual terms of the agreement until this morning.

¹¹ Later it was announced that a joint protest on behalf of the New Zealand and British Governments had been made by the Foreign Office.

In the House of Representatives certain prominent Labor members strongly criticized the Tokyo agreement as inimical to the interests and security of New Zealand and Australia in the Pacific. The Rev. Mr. A. H. Nordmeyer on July 25 referred to the Tokyo formula as "the Eastern Munich" and declared that present British policy "is calculated to disrupt the Empire and in the long run to bring us into a disastrous war." The worst feature was that "after giving way point after point we are strengthening the very force . . . which in the long run might stand against us." The same viewpoint was emphasized in several speeches by Mr. R. McKeen, the Chairman of Committees. On August 15 he stated that "the reason we are spending so much in defence in New Zealand is due to British foreign policy which has strengthened the power of Japan." Another Labor member, Mr. W. J. Lyon, urged that the Government either directly or in conjunction with Great Britain make a positive approach to the United States "for a complete linking up of the defense measures with the English speaking peoples in the Pacific."

This criticism provoked Opposition speakers to accuse Labor members of undermining imperial unity in a time of crisis. On behalf of the Government the acting Prime Minister, Mr. P. Fraser, emphasized that New Zealand was completely in accord with "the defense policy of the British Government." On August 23, he defended the right of Labor members to criticize British policy in the Far East though he declared himself in disagreement with such criticism. But he went on to say that, with war threatening in Europe, there was the more need for "a wide discretion" in the expression of views on British policy and that "what had been said a few days ago could not be said with discretion now." Concerning relations with the United States he emphasized that the Government had done everything possible to make for close co-operation and that he was "sure that from every seat in this House nothing but friendship goes out to the United States."

This official advocacy of close co-operation with America was not new. Particularly since the outbreak of hostilities in the Far East the Government had shown itself anxious that its own and British policy should maintain close relations with Mr. Roosevelt's Administration. Thus the reply to Secretary of State Cordell Hull's foreign policy message of July 16, 1937:

His Majesty's Government in New Zealand warmly approves the views that the Secretary of State has expressed and will be most happy to avail themselves of any opportunity of supporting and implementing the principles he has enunciated.

Evidence of attempts at official co-operation is not available but support for the Government's attitude, based on the recognition that the United States is the ultimate mainstay of the balance of power in the Pacific, is abundantly reflected in the press.

It has not been the purpose of this study to examine New Zealand's foreign policy as a whole, though enough has been said to show that, until 1939 at least, it exhibited officially a consistent attitude, independent largely of that of Great Britain, toward events both in Europe and in the Far East. The imminence of war in Europe since March 1939, however, led to much closer co-operation with Britain and Australia for defense against possible Japanese penetration of the south and western Pacific. And this willingness to co-operate with Britain in joint defense plans appears to have permeated New Zealand's official attitude to foreign affairs as a whole. It is true that Mr. Jordan has continued to plead at Geneva for sanctions against Japan at the 1939 sessions of the League. But seeing Great Britain confronted with the Polish crisis coincident with the Tokyo negotiations, the New Zealand Government has recently inclined toward unconditional support of British policy in both Europe and the Pacific. In a speech made at Dublin Castle early in July Mr. Nash, the Minister of Finance, made a declaration of New Zealand's policy of sufficient importance to be cabled to the Prime Minister and read to the House of Representatives on July 6:

While it was unlikely that New Zealand would in advance make commitments to send an Expeditionary Force overseas it would make every possible arrangement so that it could take its part in the defence of the Dominion, of British interests in the Pacific and its share in the defence of the British Commonwealth of Nations.

One detects here, as in other more recent pronouncements a new emphasis on imperial solidarity unqualified by reference to the principles of the League Covenant which had hitherto been the declared basis of New Zealand's attitude to international affairs.¹²

¹² In speaking of New Zealand's decision immediately to join Great Britain in war against Germany, the Prime Minister remarked on September 5: "Both with

*DEFENSE, 1935-1939*¹³

The events reviewed above, constituting a much more imminent menace to the security of the South Pacific countries than had been known since the Great War, have prompted some fresh thinking on the part of the Labor Government in regard to defense policy. It is now recognized that Labor's former antipathy toward armaments as conducive to war can no longer apply in a world where armed aggression is the predominating reality. The Government has continued unwaveringly its advocacy of a foreign policy based on the obligations of the Covenant, but at the same time it has recognized the necessity of full co-operation in Imperial defense schemes for the Pacific. This point of view was emphasized by the Prime Minister at the Imperial Conference in 1937. Upon his return to New Zealand he said he had been asked whether the Dominion wished to build a defense system for New Zealand alone. His reply had been:

No, we want to play our part in doing that, of course, but we also want to play our part in the defense of the British Commonwealth, because that is the most effective way of doing it.

This connection between local self-defense and defense through a co-ordinated Commonwealth scheme has received much more attention in recent months. Japan's southward advance in the Western Pacific during 1938-9 has intensified the conviction that such co-operation between Australia, New Zealand and Britain in co-ordinating defense forces based on Singapore is essential for the preservation of a common security. A direct invasion of New Zealand is not considered at all likely but the opportunity for further southward expansion which Britain's involvement in a European war would afford Japan

gratitude for the past, and with confidence in the future, we range ourselves without fear beside Britain. Where she goes, we go. Where she stands, we stand. We are only a small and young nation, but we are one and all a band of brothers, and we march forward with a union of hearts and wills to a common destiny."

And the Governor-General's speech at the opening of Parliament, June 28, 1939: "My ministers remain firmly attached to the principles of the Covenant of the League of Nations. . . . But in the circumstances of today, my advisers have most reluctantly been forced to recognize the fact that a full and effective application of the Covenant is for the time being impracticable."

¹³ *Contemporary New Zealand*, Chapter 15, provides a concise survey of the background, development and present tendencies in organization and strategy of New Zealand's defense up till mid-1938. (Citations are taken from this source unless otherwise indicated.)

has strongly influenced the Government's decision to expand and accelerate New Zealand defense plans. It is recognized further that, with the present chaotic situation in Europe, Australia and New Zealand must in future make themselves more self-reliant in the matter of defense and war supplies than ever before. Thus co-operation between Australia and New Zealand in regard to supply of munitions and the development of the highest possible degree of self-sufficiency in war materials has further affected the Government's attitude.

New Zealand's immediate interests in defense policy are shaped primarily by two considerations: first, the need for protection of vital trade routes upon which New Zealand's economy depends; and secondly, security against possible invasion or hostile raiding attacks. Although much has been made in the past of New Zealand's complete dependence on the British Navy for keeping open trade communications with Europe, the following comment is a more realistic appraisal of the present situation:

New Zealand's strategic position in relation to trade is a comparatively simple one. She is 1,200 miles from the nearest mainland in one direction of trade, 5,000 in the other and 5,000 miles from the nearest likely enemy. Her commerce becomes oceanic the moment it leaves New Zealand ports, and on the main route across the Pacific passes only one focal point—the Panama Canal or Cape Horn—on the journey to Europe. It is thus easy to disperse the shipping on various routes across the ocean and so materially lessen interference. Her trade is very little canalized by geographical features. To this extent her isolation in the midst of the ocean is an advantage which is not vitiated by the fact that an overwhelming proportion of her trade is transpacific. Admittedly the trade does pass through one focal point en route to Europe and at the end merges into the densest shipping stream in the world, but by that time, it has passed out of New Zealand's strategic orbit and must be regarded as a problem for the Empire as a whole and for Great Britain in particular.

There is the further fact that "the most important route, through the Panama Canal, falls largely under the potentially friendly shadow of the United States." Furthermore, the policy of encouraging local industry followed by the Labor Government, particularly since 1938, makes New Zealand better adapted to face possible severance of trade relations in the event of war. A recent editorial in the *Standard*, official organ of the Labor Party, comments:

It would be foolish to await the outbreak of a war to consider the pro-

tection of the country's economy and the local production of essentials that would be lacking if New Zealand were isolated in a trading sense from world markets. Every effort that can be made for the development of more and larger manufacturing industries has a double value from the point of view of national defense—enabling the country to withstand dislocation of world trade as well as to carry a larger population of workers with specialized skills.

The second problem, the possibility of invasion or raid attacks is bound up with New Zealand's association with the British Commonwealth. As an independent country having negligible strategic value and no important raw material resources, New Zealand would hardly invite attack from Japan or any other power, but

the reality is that New Zealand is a member of the British Commonwealth. As such she is likely to be at war for reasons unconnected with her territorial interests. In such an event, however, the enemy would have to reckon with the Commonwealth forces. Considering again the case of Japan, the naval forces which are even now available in the Western Pacific would probably be sufficient to deter an expedition intended to invade New Zealand. On the other hand a probable objective of a raiding party would be to prevent or dissuade New Zealand from dispatching any forces overseas to the assistance of any other part of the Commonwealth. New Zealand's Commonwealth membership renders her in this respect more likely to be attacked than if she stood alone. Against such a raid there would be no defense other than that with which New Zealand could provide herself, for any force which can reasonably be expected to be based on Singapore would be of little assistance. To prevent raids of this type would require a naval force strong and numerous enough to keep the waters of the Southwestern Pacific completely free from enemy vessels. The last war shows how difficult this task would be. Commonwealth membership would therefore seem from a purely strategic point of view to make New Zealand less secure from armed aggression. It implies an interest in the maintenance of the territorial integrity of each member. It implies an interest in the maintenance of common institutions and it implies certain traditional and emotional interests which it is not necessary to evaluate here. . . . New Zealand recognizes her duty to the Commonwealth but doubts her power of performance. On the other hand, New Zealand expects assistance from the Commonwealth forces, partly because her willingness to assist in a Commonwealth war renders her more likely to be attacked, but mainly because her own unaided power of resistance to an invasion is not great. Naval forces operating from the Singapore base or indeed from Australia, then appear to play an important part in the defense of New Zealand, although their greatest value is deterrent rather than protective. The fact of the existence of the Singapore base with a certain minimum of naval forces based upon it is likely upon all grounds of common sense to induce the possible enemy to decide

against dispatching an invading force, and of course the greater the strength of these forces, the greater the deterrent. Nevertheless, if New Zealand can be conquered by the casual ships which may slip through the screen provided by the Singapore forces, Singapore is not of much value to her. Its value rests upon the assumption that a major expedition would be necessary to achieve a successful invasion. This assumption, however, is true only if New Zealand has a defense organization of her own which makes some reasonable attempt to deal with the question of home defense.

The above considerations make clear the role of Singapore in New Zealand's defense policy. A good deal of emphasis has been laid upon the planned co-ordination of New Zealand's naval division and long-range air squadrons with those of Australia and British forces in the Pacific, with a view to possible joint action centered on Singapore. In April 1939 a Pacific defense conference attended by British and Australian representatives was held in Wellington on the initiative of the New Zealand Government, to work out the details of a common defense scheme. Increasing emphasis is now being placed on the expansion and closer co-ordination of the different services. It is generally felt that these improvements will be sufficient to guarantee New Zealand's security against chance raids, at least:

We think that with a land force, with a better Air Force which we are establishing and with the two new cruisers, we will be able at any rate to resist raiders if they come here. We could not, however, resist any major attack by a great Power any more than Australia could do so.¹⁴

The Tientsin crisis and Mr. Chamberlain's references to the inadequacy of Britain's present naval strength in the Far East has recently awakened in New Zealand a more lively concern regarding the measure of security actually and potentially offered by the Singapore Base. The following editorial is indicative of the effect of the heightened tension in the Pacific on New Zealand opinion as well as revealing plans for what may become a vital part of New Zealand's defenses:

Developments in recent years have raised the question whether the Singapore Base is enough. So far as the Indian Ocean and Far Eastern waters are concerned it may be, but its distance from Australia and New Zealand has prompted the Imperial Defence Committee to consider the provision of an additional base, located at Sydney. Plans and estimates, it is reported, have been prepared for "a second Singapore" to accommodate five 35,000-ton battleships of the class now being constructed in England; also for a 1000-foot graving dock, 135 feet wide and 35 feet deep

¹⁴ Minister of Defense, in the House of Representatives, October 27, 1937.

at low water, capable of receiving the biggest capital ship now afloat or under construction. The new base will give an extensive striking range for the British naval forces in the Pacific. But this is a long-term project. In the meantime the burden of territorial defence in Australia and New Zealand therefore must fall on the land forces, coast defence batteries, and military aircraft. These Dominions must accordingly be prepared to rely entirely on their own resources for at least some time, if not for a considerable period.¹⁵

Naval expenditure has been increased considerably over the last three years, rising from some £592,000 in 1935-6 to £662,000 in 1936-7, £760,000 in 1937-8 and £835,000 in 1938-9. The estimate for 1939-40 is over £900,000.

Army

The following gives a convenient summary of changes in the character of the land forces up until 1938:

In 1937, the Government announced a new scheme which reduces the number of units very considerably while maintaining the total strength of about 8,000 men. A distinction is now made between fortress (i.e. coast defence) troops and field force units, the former having a greater percentage of regular personnel and carrying out more training. Cadet training in secondary schools is to continue, but on a basis less obviously military than hitherto. In general the Government is giving a more pronounced lead to public opinion and is trying hard to attract recruits to the Territorial Force. The accentuation of mechanization and the establishing of a special Reservist Force of young men who receive three months' training coupled with vocational guidance (a scheme designed to attract those in seasonal employment) have had some success, but the territorial strength is still not as high as the Government and the military authorities desire. Nevertheless, the Government has no intention of re-introducing compulsory service for the Territorial Forces. Its policy is not to build up a large force, but one of high efficiency from which leaders can be obtained if the need arises, and of sufficient strength to provide coastal defence. . . .

The peace-time policy of the army has now been defined with reasonable clarity, and is commonly understood by the public. It is to defend the vicinity of the main ports with special artillery and infantry units (fortress troops) and to maintain outside fortress areas a small field Force of all arms, i.e., a Force whose main role is field operations as opposed to the more passive role of fortress defense.

In the early months of 1939, the imminence of war in Europe and Japan's expanding aggression in the Western Pacific stimulated Government and public anxiety over defense problems.

¹⁵ *Dominion*, August 14, 1939.

At the April conference of the New Zealand Labor Party, a report on defense policy was endorsed which expressed *inter alia* the following views:

Having regard to the changed circumstances of the world in which we live, we feel that the first essential to adequate defense is an affirmation by the Conference of the New Zealand Labor Party and by the Prime Minister that it is the duty of every fit man to offer himself for voluntary training for the defense of New Zealand.

The present small land force is justifiable only on the grounds that our present system is producing a sufficiency of instructors and officers and non-commissioned officers necessary to train every fit man in New Zealand should the need arise for the defense of New Zealand. Recruiting today is not satisfactory. It is confined too largely to men of too youthful age. . . . Some means must be adopted to ensure the retention of recruits until the required standard of efficiency has been attained. We do not subscribe to the viewpoint that New Zealand cannot defend herself. The New Zealand Division in France proved itself one of the best in the field, and any raider or enemy staging a raid or minor attack would meet with extraordinary resistance provided New Zealand were possessed of equipment and munitions and of the highly trained force we vision if the present strength were of the mature age group and capably trained so as to act as non-commissioned officers and instructors: that the New Zealand Army to be democratic should be recruited from the widest possible field with increased and accelerated opportunities for every ranker to rise to the highest commissioned rank.

The Government immediately took steps to carry some of these recommendations into effect. On May 22, the Prime Minister announced over the radio that:

In order to meet the danger of invasion . . . he was raising the strength of the territorial force from 9,500 to 16,000. He appealed to every man of military age to register in a special National Reserve pledged to serve for home defense.

Indication of the Government's determination to develop New Zealand's defenses is evidenced in the steady rise in the total defense expenditure (shown as outlay per head of the population):

1934-35.....	12/11
1935-36.....	14/3
1936-37.....	15/1
1937-38.....	£1/0/6
1938-39.....	£1/5/- (estimated)

And in 1939-40 total expenditure for defense (including £2,000,000 out of public works vote) will be nearly £5.5 million.

These recent changes indicate the extent to which New Zealand, despite comparative geographical isolation, feels itself endangered by the course of aggression in the Far East and Europe. The creation of the National Reserve, in addition to the expansion of the territorial force, emphasizes the concentration on local defense against possible raids or even invasion. New Zealand's policy since the outbreak of war in Europe can scarcely be precisely formulated in view of the many unknown factors, in particular the reactions of Japan. In 1938 it was commented:

The questions of whether or not an Expeditionary Force would be dispatched and whether preparations can or cannot be made in peace to allow for such a contingency have not been settled. . . . There is an undoubted general sentiment against a definite commitment in peace, and to a lesser degree a sentiment against ever again dispatching a Force overseas; but if an Empire war occurred and if it were clear that such a Force was needed, it seems certain that an attempt would be made to provide it. It is not forgotten, however, that the attempted dispatch of the 1914 Expeditionary Force, inadequately convoyed across an ocean containing a few enemy cruisers, provoked a Cabinet crisis which was resolved only by the provision of Japanese protection for the troop ships. It is quite possible that if war should break out again the difficulty of convoying transports would be even greater than last time. It may be that difficulties of transport would greatly strengthen the tendency for a New Zealand Expeditionary Force to be confined to the Naval and Air branches.

In the matter of defense against possible attack the Minister of Defence recently expressed strong skepticism as to the possibility of New Zealand's being invaded. In a statement made on August 22, 1939, he declared:

The defence measures we are taking are part of a co-ordinated Empire plan. . . . The territorial Army with its present strength and training is not intended to cope with the fantastic bogey of invasion. That will be possible only when the British Fleet and the British Air Force can no longer reach or operate from Singapore. If that time ever comes, it will not come until many months, not days, after the onset of war. During that period of waiting we shall build up on our present territorial organization an army sufficient in numbers, reasonably equipped, to make invasion a very costly and hazardous undertaking.

Air Force

The chief innovation in the present Government's defense policy has been the building up of a small but modern and

efficient Air Force. In 1937 at the request of the Government, a report was submitted on the Air Force in relation to New Zealand defense as a whole by a British Royal Air Force officer brought out to New Zealand for the purpose. On April 1, 1937, the Air Force was finally made fully independent of the Army.

Its main portion will consist of two squadrons of long-range modern aircraft, manned entirely by permanent personnel and capable in time of war of cooperation with the Air Forces of other parts of the Empire, notably Australia. The second line of aerial defense is provided by the Territorial squadrons, destined for the defense of the main ports.

Expenditure on the Air Force shows the greatly increased importance which the Government attaches to this defense service. Expenditure in 1936-7 was some £132,000, rising to over £500,000 for 1938-9 and to some £700,000 for 1939-40 (estimate).

In May important new developments were announced. New Zealand plans are now for a total strength of 310 planes. There is to be an Air Force of four squadrons with a personnel of 1,000, a Territorial Air Force of four squadrons, a civil reserve of 5,000, including many trained pilots, a new training school, a large new military air base in the North Island and four training schools for ground engineers. Over 100 planes, including 30 Vickers-Wellington bombers, are due to arrive from England shortly. It is felt that this concentration of air strength will be sufficient both to keep away naval raiders from New Zealand shores and also to cope with the maximum hostile air force which aircraft carriers could conceivably bring into operation in event of large-scale attack.

As in Australia importance is being attached to developing a degree of self-sufficiency for defense purposes. The British De Havilland Aircraft Company has now set up a factory outside Wellington and is to commence production of light airplanes mainly for training purposes by the end of 1939. Domestic materials are to be used for manufacture as far as possible, although initial assembling of planes is to commence on parts imported from Britain.

In July the Minister of Defence announced that New Zealand had undertaken to train for service in the British Royal Air Force 220 pilots and other personnel per year in time of peace and 1,300 a year should Britain be involved in war. The commitment was not specifically explained in terms of New Zea-

land's defense needs, but presumably it was related to the Prime Minister's statement of May 22 that New Zealand would not and could not "stand aloof . . . if Britain is involved in a general war."

The significance of the agreement for New Zealand's own defenses in event of conflict in the Pacific called forth little public attention. But its implications were underlined, in the light of the growing British-Japanese tension after Tientsin, in the following editorial:

It may be questioned whether it is in the best interests of the Dominion or of the British Commonwealth that there should be such a heavy export of the pick of New Zealand's young manhood. The rapid deterioration in relations between Great Britain and Japan suggests that should war break out the strain on the defence resources of Australia and New Zealand may be far greater than has been anticipated.¹⁶

Important changes too have been made in the control of defense. A Council of Defence has been set up which includes the Prime Minister, the Minister of Defence, the Minister of Finance, the three Chiefs of Staff of Army, Navy and Air Force, the permanent head of the Prime Minister's Department, the Secretary of the Treasury, and such other ministers, members of Parliament or other persons as the Prime Minister may from time to time summon.

This body should ensure that proper coordination exists and that matters of policy receive due consideration. It is an advisory body very similar to the Committee of Imperial Defense. At the same time there has been formed a body known as the Organization for National Security, which is in effect a group of committees to investigate problems affecting national defense in its broadest aspect, i.e., those matters which extend beyond the purview of the armed forces alone and affect the life of the community at large. It corresponds to the sub-committees of the Committee of Imperial Defense.

*Western Samoa: Mandates and Defense*¹⁷

The increasingly close co-operation between Germany and Japan since mid-1938 has given new point in New Zealand and Australian eyes to Germany's reiterated demands for the return of her colonial possessions. At the time of the signing of the Anti-Comintern Pact it was reported that a secret clause re-

¹⁶ *Press*, Christchurch, July 21, 1939.

¹⁷ This section is concerned only with the situation prior to the outbreak of war with Germany in September 1939.

nounced Germany's claim as far as Japan's mandated islands in the North Pacific were concerned.¹⁸ If the report had any substance, it served to increase the possibility of German-Japanese partnership in the event of conquests in the South Pacific which Germany's actions in Europe might enable Japan to undertake. Another secret clause in the Pact of November 25, 1936 was alleged to have provided for joint spheres of influence and possible annexation of the Netherlands East Indies between Germany and Italy.

In view of the present alignment of powers in Europe and Asia, the question of the possible retention of New Zealand's mandate for Western Samoa involves strategic as well as general principles. As to the latter,

Although there are no clearly formulated views, the following comment by Mr. W. J. Jordan, the New Zealand High Commissioner and Representative at Geneva, might well be accepted as an official expression of opinion. "The League of Nations, to which mandatory countries are answerable, is the only proper body which can consider claims for the return of colonies. We have separated the Peace Treaty from the Covenant of the League, and if dissatisfied countries return to the League and reason out their claims, satisfaction may be reached just as under the settlement of Antioch and Alexandretta."¹⁹

At the present time, however, strategic considerations undoubtedly predominate in determining New Zealand's attitude. The following comment written early in 1937 is still applicable, though since Munich the increased German menace to Imperial security has made the question of possible restoration of any former German territories in the South Pacific academic as far as New Zealand and Australia are concerned:

From the strategic point of view the real danger would be an alliance between Japan and Germany in peace time, but with a view to war in the Pacific. In this case Western Samoa in German hands would give Japan in peace time an advance space south of the equator. She could dump there supplies of war materials such as oil and even ensure that when war broke out small forces (aircraft or submarine) could be stationed there. So long then as there is a virtual alliance between Japan and Germany, the return of the territory to Germany should be regarded as strategically undesirable.²⁰

¹⁸ Augur, in the *New York Times*, November 26, 1936.

¹⁹ *Contemporary New Zealand*, pp. 216-17.

²⁰ *Western Samoa, Mandate or German Colony*, New Zealand Institute of International Affairs, 1937.

PUBLIC OPINION

New Zealand's emerging independence of outlook consistently manifested at Geneva did not bring any abrupt change in the popular attitude to Far Eastern affairs. Until the 1937 outbreak, at least, there was still "a general disposition to regard the Far East as a somewhat remote compartment of the world."²¹ During the 1934-6 period of the Japanese "autonomy" campaign in China there were few New Zealanders who gave much thought to its possible explosive consequences. The outbreak of hostilities in July 1937 naturally aroused immediate concern with Far Eastern affairs, but at first it did not lead many New Zealanders to consider that the Dominion's vital interests might be directly affected. Only with Japan's southward expansion to Canton, Hainan, and deeper into the southwestern Pacific at a later stage did the Far Eastern conflict take on a more threatening aspect in the public mind. Even during 1938-9 New Zealand eyes were concentrated primarily on the danger points to peace in Europe rather than on any immediate menace from a southward-advancing Japan. At the same time there was increasing recognition that Britain's involvement in a European war might well encourage Japan to extend her southward course to the Dutch East Indies and British Malaya, thus directly jeopardizing the security of Australia and New Zealand.

The majority of New Zealanders, however, tended to regard the opening stages of the present conflict as a kind of repetition of 1931-3. Majority opinion, along with certain editorial writers, assumed that with the large-scale frontal fighting launched in Shanghai, China would be forced to capitulate within several months. New Zealanders, as we have seen, have to rely largely on British sources of information in foreign affairs and the majority of British newspapers in the early months of the conflict considerably underestimated China's capacity for resistance and editorially tended to play down the significance of the outbreak. The immediate local causes of the conflict were of concern only to a few students of Pacific problems. Given the presence of Japanese armies on the mainland of China, the general public took the view that Japan was just "at it again." At the same time the conviction gained ground that Japanese expansion was being directed by a military dictatorship over

²¹ *Contemporary New Zealand*, p. 221.

whose actions the people and their parliamentary representatives exercised a rapidly diminishing degree of control. And in the trade unions and liberal circles there was strong feeling that Japan's actions were the necessary consequence of imperialist expansion in a totalitarian state—a process linked with the similar policies of Germany and Italy in Europe.

The labor movement in particular expressed conviction that in addition to the Government's declared policy of restraint of the aggressor through application of League measures some positive independent action was necessary. Thus early in the war some of the trade unions began organizing a movement for a consumers' boycott of Japanese goods. And in September and October 1937 waterside workers in Auckland, Wellington and Dunedin refused on several occasions to load scrap metal destined for Japan. The men held firm until the Government intervened. As the result of a conference between the Cabinet members and representatives of the New Zealand Federation of Labor a Government embargo was imposed on the export of all scrap metal on October 8. Questioned as to whether the embargo was directed specifically at Japan, the Prime Minister declared:

The prohibition does not apply to Japan alone. It applies to all countries. We want to develop the iron industry in New Zealand . . . that is the only reason for prohibiting the export of scrap iron.²²

As the scope of hostilities widened in China it became clear to increasing numbers of New Zealanders that the Sino-Japanese conflict was closely bound up with the European crisis. In November 1937 Italy joined the already firmly grounded Anti-Comintern Pact; by the middle of 1938 the German military advisers to Generalissimo Chiang Kai-shek were withdrawn and the flow of German war materials to Hongkong ceased. While Britain and France were preoccupied with the gathering Czech crisis, Japan had been preparing for a possible southward campaign in Kwangtung. Immediately Munich had revealed British and French unwillingness to oppose the Berlin-Rome axis, Japan launched the attack on Canton—an act long delayed apparently from fear of British reprisals in consequence of the threat to Hongkong. Further confirmation of co-ordinated ex-

²² Legislation was passed in 1938 enabling the Government to set up an iron and steel works with capital (up to £5 million) provided by the State if conditions were found to justify the step.

pansion among the Berlin-Rome-Tokyo allies came with the Japanese seizure of Hainan in mid-February 1939, followed by the annexation of the strategically placed Spratly Islands, just when Britain and France were once again immersed in the final stages of "settling" the Spanish crisis.

To supporters of the Government's collective security policy these developments were solid evidence of the dangers to the security of the Commonwealth from Britain's appeasement policy. Munich had enormously strengthened Germany's position in Europe at the expense of France; Spain was virtually linked to the Berlin-Rome axis; Italy was strategically entrenched at the western end of the Mediterranean; and their aggressive policies in Europe were offering Japan conveniently broad opportunities for fresh expansion in the Pacific.

THE PRESS

The special role of the press in influencing public opinion in New Zealand has already been noted. Such influence derives in the first place from the adequacy and manner of presentation of the cable news and secondly from editorial comment. Once hostilities had passed beyond the scope of "incidents," the New Zealand press devoted considerable prominence to the course of the war, especially where it collided with foreign interests in China. At times the headline emphasis has hardly had adequate news coverage beneath it, but frequently the cables have been of ample detail, even if somewhat haphazardly chosen. In addition there has been a noticeable increase in syndicated articles, contributions from special correspondents to Australian papers and reprints from articles in the leading British and American press. As far as informational background is concerned it can be said that the interested New Zealander has had a reasonable opportunity of forming more than a superficial understanding of the conflict.

The relation of editorial comment on the Far Eastern conflict to New Zealand public opinion is difficult to estimate. In most papers the editorials have tended to reflect a conservative, imperialist viewpoint. Thus the editorials of the *New Zealand Herald* (Auckland), the *Dominion* (Wellington) and *Atago Daily Times* (Dunedin) in particular voice the sentiments of conservative, Empire-loving New Zealanders. One finds in their columns, as in those of most of the smaller dailies, a staunch

and generally uncritical faith in the "Mother Country" and British institutions generally. The degree of loyalty often stretches beyond prosaic limits of fact. Thus the following comment on the Opium war and the cession of Hongkong and the treaty ports:

That Britain forced her commerce upon the Chinese is inaccurate, for the Chinese are above all a trading people.²³

Editorials in these papers are important insofar as they reflect the general attitude of a considerable section of New Zealand opinion. Frequently they limit themselves to a *résumé* of the background to the situation under comment, stating the issues and offering no solution beyond implicit faith in the course taken by the British Government. On the other hand one or two influential papers have shown a definite independence of editorial outlook. Thus the *Press* (Christchurch), and occasionally the *Evening Post* (Wellington), have sharply criticized British foreign policy, particularly since Munich, where it appeared to run counter to New Zealand's interests in the Pacific. The *Press*, in fact, in its comments on the conflict in China, has shown a sustained attempt to present a definite, independently thought-out viewpoint from which each incident is judged as it arises. Because of their comparative frequency and well-informed, persuasively argued character, the *Press* editorials on the war stand apart from those of the other dailies. They have tended to influence rather than reflect or confirm existing attitudes, although the extent of influence is largely limited to the interested public of only part of the South Island.

One further point should be mentioned here. Although New Zealand has had a Labor Government for the last four years there is no large daily paper representing the Labor party. The official organ of the party is the weekly *Standard*, and comment from labor's point of view is further supplied from various independent weekly or fortnightly periodicals, trade union journals and one or two independent small-town dailies. Until quite recently comments in the *Standard* on foreign affairs were rare, the editorials being concerned almost exclusively with home politics. Thus in the following survey of press attitudes the view of the labor movement is barely represented at all. Its attitude, however, has been made plain by its stand on several

²³ *New Zealand Herald*, June 23, 1939.

occasions already noted: initial sympathy for the Chinese as victims of aggression, support for Mr. Jordan's attempts at Geneva to secure restraint of Japan, refusal to loan scrap metal to Japan, and outspoken opposition in the House of Representatives to British policy where this was considered inimical to the interests of peace and New Zealand's security in the Pacific.

In making a brief analysis of representative press comment on the Far Eastern conflict, it will be convenient to consider, first, that on the course of hostilities as a whole between Japan and China, and then that on international reactions, in particular New Zealand's interests therein.

With the outbreak of hostilities in North China in July 1937 nearly all the leading papers took the view that Japan had embarked on an unwarrantably aggressive policy. The *New Zealand Herald* was perhaps the most outspoken:

In spite of Japanese allegations, it is so manifestly against the interests of China to provoke Japan that nobody aware of recent trends in Eastern Asia can reasonably believe China to be guilty in this instance. Even if she were, the circumstantial accounts of the Japanese demands suggest that these are inspired by a sinister national policy, not by merely an instinct of self-protection.²⁴

Concerning Japan's alleged economic needs the same paper commented:

Japan has a peace plan for the Orient. It is worth consideration but unfortunately it is too much infected with power politics to promise real and enduring success. The plan is, briefly and bluntly put, a Japanese hegemony.

The Wellington *Evening Post* based its analysis on an article of Mr. H. G. W. Woodhead in *Oriental Affairs* which had attempted "to discuss Japan and China impartially:"

In it we can find no trace of a justification for Japanese military operations in North China of the scale and character to which they have attained.²⁵

In an earlier editorial, however, the same paper, without

²⁴ July 16, 1937.

²⁵ November 1, 1937. It is interesting to note the extent of Mr. Woodhead's influence in New Zealand and Australian press coverage of the Far East. He has contributed various special articles for the *Press* and his special dispatches to the *Sydney Morning Herald* are frequently published in several New Zealand papers.

justifying the methods used by Japan, appeared to lay primary responsibility for the outbreak on the alleged vacillation and limited authority of the Chinese Government:

Neither the Japanese nor any other people take undue liberties with a Government whose position in relation to national defence is definite. . . . A weak Government is no friend either to its own country or to its neighbours.

The Christchurch *Press* considered that by its actions the Japanese Government has missed an "unrivalled opportunity to establish good relations with China and Great Britain."²⁶ As to responsibility for the outbreak it was felt that the "evasiveness" of the Nanking Government and the Hopei-Chahar Political Council was a primary factor:

For Japan's resort to force in North China there is a plausible enough case.

But the spread of hostilities to Shanghai was a different matter:

No justification of Japanese policy in the Shanghai area is possible or has been seriously attempted by the Japanese Government.²⁷

As to the subsequent cause of the war and its possible outcome there has been little sustained comment except in one paper. Interest has been taken more in the impact of hostilities in British and other foreign interests in China than in any thorough analysis of the relative resources of China and Japan. The *Press*, however, has on several occasions expressed the view, based to some extent on special articles from Mr. H. G. W. Woodhead in Shanghai, that China's collapse is only a matter of time. Thus after the fall of Shanghai it was held that:

The war may possibly continue for many months yet; but the ultimate result is not now in doubt. The only question is whether the Japanese armies will attempt to complete occupation of the Yangtse Valley or whether there will be an immediate attempt to negotiate peace . . .²⁸

This viewpoint was mainly based on a disbelief in the effectiveness of guerilla activities by "the somewhat fabulous communist armies." After the fall of Nanking the potentialities of Chinese guerilla resistance were thus discounted by the *Press*:

Chiang Kai-shek's much published plans for enticing the Japanese armies

²⁶ July 14, 1937.

²⁷ August 20, 1937.

²⁸ November 1, 1937.

into exhausting campaigns in the interior are based on unreal analogies with wars fought more than a century ago with different weapons and against vastly different social backgrounds.²⁹

Again after the capture of Hankow it was considered that the statement Japan had "in a sense" won the war through her urgent need for the "speedy reconstruction" of China meant that "her real task is only beginning."³⁰ However, the earlier attitude of the *Press* was confirmed in an editorial entitled "Two Years of the War in China" which declared:

In spite of all that has been said about time being on the side of the Chinese nationalists . . . it remains true that the Japanese armies continue to advance and to consolidate their gains. Industrial equipment in Nationalist China is so meagre and the road and rail connections with the outside world are so bad that there is no longer any possibility of Chiang Kai-shek equipping an army strong enough to win a major victory in the field. There is even less possibility of "economic collapse" in Japan. The conclusion must be that only foreign military intervention can prevent the gradual wearing down of Chinese resistance.³¹

The majority of the editorials on the Far Eastern conflict have been concerned with its effects on British and American interests. Several papers which in the early stages wrote of the hostilities in a view of somewhat detached "neutrality" quickly registered vigorous protest when British prestige in China began to suffer. The wounding of the British Ambassador by Japanese aviators in August 1937, for example, noticeably stiffened the attitude of the *New Zealand Herald* which commented on this "lunatic by-product of the deliberate policy Japan is pursuing in China" thus:

Unless a halt can be steadily called to this frenzy other nations will have to step in; and the United States, for instance, will find neutrality impossible if either or both of the combatant Governments continue to ignore the treaty rights of non-Asiatic Powers.³²

The *Press* used the incident to ask what Britain could do to prevent similar crises in the future:

Concerted action by Great Britain, the United States and France . . . would undoubtedly compel the Japanese Government to modify its policy and its methods.³³

²⁹ December 17, 1937.

³⁰ October 27, 1938.

³¹ July 11, 1939.

³² August 28, 1937.

³³ August 28, 1937.

But it emphasized that "everything depends on Washington; and Mr. Hull has been at some pains to emphasize the Administration's aloofness from events in the Far East."

The Nine-Power Conference at Brussels was the occasion for a good deal of speculation as to the possibility of Anglo-American co-operation to restrain Japan. The prevailing tenor of comment was that American isolationism was too deep-rooted to permit of the United States' participating actively in the Far East. Most of the papers considered that it was Washington's responsibility to take the initiative at Brussels and that, having failed to do so, the United States could not be relied on as an active force in the Far Eastern crisis. The *Press*' comment, if a little more subtle than some, represents the general viewpoint:

It is not outside the bounds of possibility that Mr. Roosevelt and the State Department encouraged the League because they wanted the League to go on handling the dispute, thus providing the United States with a valid and welcome excuse for remaining in a position of benevolent detachment. This may be an over-cynical interpretation; but it is at least true that the United States Government was not enthusiastic over the proposal to call a Conference. . . . Moreover, the refusal of the American delegates at Brussels to give a lead is an additional reason why so little progress has been made.³⁴

Lack of confidence in the ability of America to intervene firmly in the Far East did not prevent the press from strongly advocating close Anglo-American co-operation in face of Japan's actions. The *Press* in particular urged this as a vital interest of the dominions in the Pacific. Toward the end of 1938, in the light of Great Britain's refusal to allow a loan requested by the Chinese Government and of apparent diplomatic efforts for a compromise agreement with Japan, the view was taken that it was

regrettably apparent that the Far Eastern policy of Great Britain and the United States, after a period of parallel action which has lasted since the beginning of the present war in China, are once more diverging.

The editorial went on to stress that the present conflict involved more than simply "the problem of China":

The series of treaties signed at the Washington Conference in 1921 are a reminder that the problem of China is inextricably bound up with the problem of naval power in the Pacific. Of this fact the British Dominions in the Pacific have in the past been more conscious than Great Britain

³⁴ November 8, 1937.

. . . and feel that good relations between Great Britain and the United States as naval Powers constitute the best guarantee of their security.³⁵

In consequence of this attitude we find the *Press*, along with other papers, welcoming the British note to Japan of January 14, 1938, as evidence of a policy more in keeping with that of the United States and noting with satisfaction such American moves as the proposal to begin a naval and air base at Guam as "further evidence of its determination not to withdraw its navy from the Western Pacific."³⁶ The Kulangsu incident in May 1939 the *Press* found:

remarkable as the first occasion on which third powers in China have gone beyond diplomatic protests in defence of their rights and also as an impressive indication of the close dovetailing of British and American policy in the Far East.³⁷

The Tientsin crisis was the occasion for a re-emphasis of New Zealand's interests in relation to British Far Eastern policy:

Events in China in the last few weeks have shown clearly that the only possible basis for friendly relations between Great Britain and Japan at the present time is acceptance by Great Britain of Japan's "new order in East Asia" policy and a cessation of financial assistance to the Chinese Government. And the principal reason against such a drastic change of policy is that it would bring to an end a period of effective co-operation between Great Britain and the United States in the Far East. For the British Commonwealth that would be disaster, since its future in the Pacific depends almost entirely on the maintenance and development of good relations with the United States.³⁸

An interesting and important feature of the comments on the war is the comparative absence of any suggestion that New Zealand's interests were directly involved. At least until early 1939 most of the comment is from the viewpoint of the detached spectator. On the same editorial page can be found one article stressing the need for further defense measures in New Zealand and another in which, for instance, a Japanese attack on Canton is discussed quite without reference to its implica-

³⁵ November 8, 1938.

³⁶ *Press*, January 21, 1939.

³⁷ May 20, 1939. In response to Japanese demands to the Municipal Council of Kulangsu, Britain, the United States and France landed equal numbers of marines to re-enforce a joint refusal of the Japanese demands. The Japanese blockade of the Settlement was then temporarily suspended.

³⁸ *Press*, June 29, 1939.

tions for Australia and New Zealand's security in the Pacific. Thus in reference to Japan's seizure of Hainan, the *Evening Post* remarked that Britain and France would have to make a "serious protest," and the *Herald*, in general terms commented that Japan's action "introduces a new and gravely disturbing element into a Pacific situation already occasioning anxiety."³⁹

The Anglo-Japanese tension at Tientsin, however, brought a new awakening of New Zealand's interest in the Far Eastern conflict. Indignation at the slights to British prestige was mingled with lively concern as to Japan's ultimate gains. The *Evening Post* considered Japan's actions at Tientsin good cause for a recruiting campaign in New Zealand: "The circumstances of the present time, far more than those of 1914—because events in China bring the danger nearer our own door—are in themselves a clear call to come forward."⁴⁰ In a series of editorials, the *Evening Post* went on to stress the need for joint firm action by the powers to check Japan, in particular by taking advantage of the projected pact with Russia as the link between the western and eastern "peace fronts." The delay in the concluding of the Anglo-French-Russian agreement was said to be "naturally causing widespread concern."⁴¹ New confidence was expressed in several quarters as to the effectiveness of economic measures directed at Japan:

"Japan's strategic strength (which she abuses), and her economic vulnerability may combine to open a new chapter in the half-told tale of economic sanctions."⁴² The *Press* on the other hand, while admitting that joint economic sanctions "could within a comparatively brief period precipitate an economic crisis in Japan," considered that "the actual application of economic sanctions means bringing the possibility of a world conflict appreciably nearer."⁴³

Following upon the Tientsin incident, the Anglo-Japanese negotiations in Tokyo were the subject of keen comment in the press. The *Herald* began by welcoming the announcement of the joint agreement to negotiate on the grounds that Britain had "gained a vital point in bringing Japan to the conference

³⁹ February 14, 1939.

⁴⁰ June 23, 1939.

⁴¹ June 24, 1939.

⁴² *Evening Post*, June 20, 1939.

⁴³ June 28, 1939.

table" for "free and equal negotiations."⁴⁴ A week prior to the announcement of the Craigie-Arita agreement the *Herald* asserted confidently:

To fall in with Japan, and co-operate in the Far East, would mean falling out with the United States and Russia, whose close collaboration is being sought in other fields. . . . Finally Britain has no doubt considered the effect within the Empire. Three of the Dominions look out on the Pacific and there are the vast Imperial interests in the Middle East conscious of the pressure of Japanese expansion and of what it may hold for them in the future if not checked. . . . Britain is not going to forfeit her whole diplomatic position and her declared international principle for the sake of easement at Tientsin. She cannot retreat from her ground, however grave the risk.⁴⁵

Upon the revelation of the Tokyo agreement there was a hasty change of attitude. Britain's action was justified as one of necessary "neutrality" in view of the defenselessness of the concession at Tientsin, but a note of anxiety was evident:

It must be admitted Britain has gone a long way in this preliminary agreement with Japan, and probably further than she would have wished to go had she been in a stronger position. . . . New Zealand should ponder on this development and what it means to her. The "sure shield" cannot at present cover points far separated from its Home base.⁴⁶

Similarly the *Dominion*, traditionally the staunchest champion of British policy in Empire solidarity, found it "a little difficult to reconcile the statement by the British Prime Minister that the basic agreement between Britain and Japan . . . does not connote 'any change whatever' in British foreign policy in China, with the language of the agreement itself." It was felt that the British concession—"which virtually amounts to the granting of belligerent rights"—would not only diminish British prestige in Europe but revive the unfortunate experiences of "appeasement":

Having gained a point in the basic agreement, Japan may now press for further points of advantage in regard to the consequential questions—her rights in the treaty ports, and Britain's attitude to the Chiang Kai-shek Government.⁴⁷

The *Press* considered the agreement defensible from one point of view:

⁴⁴ June 30, 1939.

⁴⁵ July 18, 1939.

⁴⁶ *New Zealand Herald*, July 26, 1939.

⁴⁷ July 26, 1939.

To the extent that the compromise in Tokyo is based on the principle that the British Government's primary concern at the moment is with the European situation . . . it is not open to criticism. Only an assurance of full support from the United States could have justified an unyielding stand against Japan: and at present United States foreign policy is paralysed by the deadlock in Congress on the neutrality issue.

But it was further urged that British policy had not followed the only course open to it. Had there been a withdrawal from the concession at Tientsin, then "principles," implicit in the obligations of the Nine-Power Treaty, could have been firmly maintained. Thus:

Whatever can be said in its favour the policy indicated in the declaration has two defects which are fundamental. The first is that the British Government has receded from a position which was legally and morally unassailable. The second is that the concession to Japan's expansionist aims must have unfavourable repercussions among those peoples and governments in Europe who are doubtful of the earnestness of the British Government's proclaimed intention to resist aggression in Europe.⁴⁸

The scarcely disguised concern which nearly every paper showed over the Tokyo agreement was partly removed by the action of the United States Government in renouncing the 1911 treaty with Japan. Even papers which had long been skeptical of any positive American policy in foreign affairs now began to recognize the significance of recent changes in American public opinion in the direction of a policy based on co-operation against the forces of aggression. The *Evening Post* was encouraged to hope that "this new factor in the situation may well strengthen Britain's determination not to yield, and give Japan ground to pause before further action."⁴⁹ Other papers put a similar point of view. There is considerable evidence to show that the Tientsin-Tokyo phase of the Far Eastern conflict not only aroused new anxieties in New Zealand as to Japanese aims but called forth much misgiving as to the course of British policy as related to that of the United States and to New Zealand's own security. How far these doubts might have influenced imperial relations cannot now be known, for about a month after the announcement of the Tokyo agreement, New Zealand was joined with Great Britain in war against Germany.

⁴⁸ July 26, 1939.

⁴⁹ August 9, 1939.

APPENDIX I.

NEW ZEALAND'S IMPORTS

New Zealand's import trade is confined mainly to the United Kingdom, Australia, United States and Canada, with the United Kingdom supplying about 50 per cent of all imports. Imports from Japan have risen substantially in recent years, reaching a record level of £1,629,000 in 1937, as compared with a total of £332,000 in 1931.

The following table shows, for the last three years available, imports from principal countries of origin. (In N.Z.£.)

<i>Year</i>	<i>United Kingdom</i>	<i>Australia</i>	<i>Canada</i>	<i>India</i>	<i>Ceylon</i>	<i>Fiji</i>	<i>United States</i>	<i>Japan</i>
1935	18,283,096	3,957,398	2,450,457	571,630	633,594	80,090	4,535,060	1,100,150
1936	21,851,524	4,941,376	3,326,878	554,100	750,982	95,933	5,605,379	1,328,195
1937	27,861,275	6,595,605	4,563,287	579,922	823,470	95,573	6,962,518	1,629,191

Of the total imports of merchandise in 1937 the eight countries shown supplied 87 per cent on the basis of country of origin. The next most important supplier was the Dutch East Indies, which in that particular year supplied New Zealand with goods (mostly gasoline) to the value of £2,238,000 or 4 per cent of total imports.

New Zealand's imports by countries of origin and the percentage of trade held by different countries is shown in the following table for the last three years available.

IMPORTS (COUNTRY OF ORIGIN)

<i>Country</i>	<i>1935</i> <i>Per cent</i>	<i>1936</i> <i>Per cent</i>	<i>1937</i> <i>Per cent</i>
United Kingdom.....	50.39	49.37	49.62
Canada.....	6.75	7.52	8.13
India.....	1.58	1.25	1.03
Ceylon.....	1.75	1.70	1.47
Union of South Africa.....	0.15	0.27	0.24
Australia.....	10.90	11.16	11.74
Fiji.....	0.22	0.22	0.17
Other British countries.....	1.57	1.25	1.23
Totals for British countries....	73.31	72.74	73.63
Germany.....	1.47	1.69	1.73
France.....	0.61	0.49	0.42
Belgium.....	0.60	0.92	0.97
Japan.....	3.03	3.00	2.90
Dutch East Indies.....	3.96	4.01	3.99
United States of America.....	12.50	12.66	12.39
Other foreign countries.....	4.52	4.49	3.97
Totals for foreign countries....	26.69	27.26	26.37

APPENDIX II.

NEW ZEALAND'S EXPORTS (1937)

The following figures relate to the main exports of New Zealand—in each case it will be noticed how much is taken by the United Kingdom. As well as Eastern countries, other countries bordering on the Pacific are included in the figures, and the totals are also given.

<i>Country to Which Exported</i>	<i>1937</i>
<i>Wool</i>	<i>lbs.</i>
United Kingdom.....	149,590,128
Canada.....	12,442,456
Australia.....	5,992,283
China.....	656,290
Japan.....	38,220,613
United States of America.....	32,790,556
Totals for all countries.....	282,352,153
<i>Frozen Meat</i>	<i>cwt.</i>
United Kingdom.....	5,393,049
Canada.....	400
Australia.....	150
Japan.....	5,240
United States of America.....	3,865
Hawaii.....	4,857
Totals for all countries.....	5,410,912
<i>Butter</i>	<i>cwt.</i>
United Kingdom.....	2,903,005
Hongkong.....	2,662
Malaya.....	3,683
Canada.....	208
China.....	4,125
Japan.....	4,374
Philippine Islands.....	1,175
Panama Canal Zone.....	19,169
United States of America.....	2,008
Hawaii.....	10,366
Totals for all countries.....	2,976,085

APPENDIX II.

<i>Country to Which Exported</i>	<i>1937</i>
<i>Cheese</i>	<i>cwt.</i>
United Kingdom.....	1,644,241
Hongkong.....	200
Canada.....	1,389
Australia.....	245
China.....	516
Totals for all countries.....	1,647,160
<i>Dried and Preserved Milk</i>	<i>lbs.</i>
United Kingdom.....	20,036,828
Hongkong.....	38,205
Malaya.....	3,046,608
Japan.....	404,656
Society Islands.....	498,063
Totals for all countries.....	24,714,068
<i>Tallow</i>	<i>tons</i>
United Kingdom.....	16,868
Canada.....	819
China.....	347
Japan.....	2,422
United States of America.....	480
Totals for all countries.....	25,940
<i>Hides (Cattle and Horse)</i>	<i>number</i>
United Kingdom.....	113,464
Canada.....	105,268
Australia.....	93,963
Japan.....	14,106
United States of America.....	56,271
Totals for all countries.....	508,628
<i>Apples (Fresh)</i>	<i>lbs.</i>
United Kingdom.....	28,889,350
Hongkong.....	36,640
Malaya.....	40,040
Canada.....	2,855,200
Fiji.....	138,184
China.....	43,200
Dutch East Indies.....	70,480
Philippine Islands.....	46,120
Totals for all countries.....	36,086,771

APPENDIX III.

COMPARATIVE RATES OF CUSTOMS DUTIES ON THE PRINCIPAL IMPORTS INTO NEW ZEALAND FROM FAR EASTERN COUNTRIES

	<i>Rates of duty (on August 30, 1930)</i>	<i>Rates of duty (on May 1, 1939)</i>
<i>Hongkong</i>		
Apparel.....	25 per cent	20 or 25 per cent
Footwear.....	25 per cent	20 or 25 per cent
Electric lamps, n.e.i. *.....	10 per cent	10 per cent
Furniture, n.e.i. *.....	25 per cent	15 per cent
Fireworks.....	20 per cent	20 per cent
<i>Malaya</i>		
Canned pineapples.....	25 per cent	25 per cent
Sago and tapioca.....	Free	Free
Spices, unground.....	Free	Free
Raw rubber.....	Free	Free
Canes and rattans.....	Free	Free
<i>China</i>		
Rice.....	Free	Free
Walnuts.....	2d. per lb.	2d. per lb.
Tea.....	2d. per lb.	5d. per lb.
Apparel.....	45 per cent	Mostly 65 per cent
Drapery.....	40 per cent	45 per cent
Silk piece goods.....	15 per cent	Woven 15 per cent Knitted 25 per cent
Vegetable oils, n.e.i. *.....	Free	Free
Brushmakers' materials.....	Free	Free—25 per cent
<i>Netherlands East Indies</i>		
Maize.....	2/- per cental	2/- per cental
Peanuts.....	Free	Free
Raw sugar.....	Free	1d. per lb. **
Hemp fibers.....	Free	Free
Kapok.....	Free	Free
Crude petroleum.....	Free	Free
Motor spirits.....	4d. per gallon	10d. per gallon ***
Lubricating oils.....	8d. per gallon	1/- per gallon
Other refined mineral oils (including kerosene).....	Free	Free

	<i>Rates of duty</i> (on August 30, 1930)	<i>Rates of duty</i> (on May 1, 1939)
<i>Japan</i>		
Apparel.....	45 per cent	Mostly 65 per cent
Footwear—children's.....	20 per cent	20 per cent
other.....	45 per cent	50% or 55% or 6/- per pair
Hatmakers' materials.....	Free	Free
Buttons, n.e.i.*.....	Free	Free
Drapery.....	40 per cent	45 per cent
Cotton, silk, and artificial silk piece goods	15 per cent	15 or 25 per cent
Oak timber.....	Free	6/- per 100 sup. ft.
Earthenware and chinaware		
(a) for table use.....	20 per cent	45 per cent
(b) other.....	40 per cent	45 per cent
Glass.....	10 per cent	10% (no surtax)
Glassware, n.e.i.*.....	40 per cent	45 per cent
Stationery.....	40 or 45 per cent	50 or 55 per cent
Fancy goods and toys.....	40 per cent	50 per cent
Sulphur.....	Free	Free
Brushes and brushware.....	45 per cent	50 per cent
<i>Philippine Islands</i>		
Manila hemp.....	Free	Free
<i>Siam</i>		
Rice.....	Free	Free

NOTE. Foreign dutiable goods are liable to a surtax of 9/40ths of the duty unless otherwise stated.

* n.e.i. means "not elsewhere included."

** Mostly admitted free for refining in New Zealand when excise duty of 1d. per lb. charged on finished product.

*** Applies to all motor spirit imported. Surtax 1/20th of duty.

APPENDIX IV.

TRADE BETWEEN NEW ZEALAND AND FAR EASTERN COUNTRIES DURING THE YEARS FROM 1931 TO 1938 INCLUSIVE

Country	1931 £(N.Z.)	1932 £(N.Z.)	1933 £(N.Z.)	1934 £(N.Z.)	1935 £(N.Z.)	1936 £(N.Z.)	1937 £(N.Z.)	1938 £(N.Z.)
<i>Hongkong</i>								
Exports to.....	14,038	13,872	11,868	16,207	10,875	22,220	26,255	28,021
Imports from...	2,796	5,315	6,299	9,681	10,356	17,695	25,698	30,962
Balance in favor of Hongkong..	11,242*	8,557	5,569*	6,526*	519*	4,525*	557*	2,941
<i>Malaya</i>								
Exports to.....	12,323	26,307	21,905	49,596	62,772	71,179	75,448	64,092
Imports from...	62,644	95,074	63,181	64,826	81,457	97,260	108,955	98,805
Balance in favor of Malaya.....	50,321	68,767	41,276	15,230	18,685	26,081	33,507	34,713
<i>China</i>								
Exports to.....	17,312	14,988	54,056	19,071	7,668	31,768	81,821	34,597
Imports from...	90,483	85,011	72,785	98,454	97,251	151,353	143,644	121,570
Balance in favor of China.....	73,171	70,023	18,729	79,437	89,583	119,585	61,823	86,973
<i>Netherlands East Indies</i>								
Exports to.....	5,283	2,262	1,417	1,364	1,412	482	1,999	7,667
Imports from...	933,038	873,012	998,224	1,381,974	1,436,964	1,772,642	2,238,413	2,150,328
Balance in favor of the Indies..	927,755	870,750	996,807	1,380,610	1,435,552	1,772,160	2,236,414	2,142,661
<i>French Indo-China</i>								
Exports to.....	—	2	—	2	—	559	1,595	3,755
Imports from...	98	—	120	41	15	—	5	421
Balance in favor of Indo-China.	98	2*	120	39	15	559*	1,590*	3,334*
<i>Japan</i>								
Exports to.....	267,412	236,446	353,190	853,071	430,964	1,551,346	3,127,733	592,714
Imports from...	334,985	478,221	675,571	836,595	1,100,150	1,328,195	1,629,191	1,208,185
Balance in favor of Japan.....	67,573	241,775	322,381	16,476*	669,186	223,151*	1,498,542*	615,471
<i>Philippine Islands</i>								
Exports to.....	5,413	1,051	335	2,482	3,945	5,983	9,300	16,066
Imports from...	10,304	6,219	7,033	13,268	10,837	14,824	21,644	19,911
Balance in favor of Philippines.	4,891	5,168	6,698	10,786	6,892	8,841	12,344	3,845
<i>Siam</i>								
Exports to.....	4	—	—	—	24	25	798	1,299
Imports from...	1,496	1,651	2,041	2,119	2,563	3,309	3,998	6,492
Balance in favor of Siam.....	1,492	1,651	2,041	2,119	2,539	3,284	3,200	5,193

* Balance "in favor" of New Zealand.

Note: Exports include New Zealand produce only. Imports are according to countries of origin.

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